UNEMPLOYMENT: ITS CAUSES AND CURE

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BY

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WITH A FOREWORD
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FOREWORD

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SIR ARTHUR BALFOUR, K.B.E.

THIS book on the causes of unemployment and some suggestions for its cure, is most opportune. There never was a time when it was more important that people in this country should realize the fundamental economic facts which govern our life. We have made tremendous sacrifices, mental, physical and financial, during and after the war, and it would appear that the lack of appreciation of the fact that a nation finally can only live at a standard which its production permits, is allowing the final victory to slip from our grasp.

This book sets forth lucidly and in clear language the economic principles which

are bound to assert themselves in the long run. We must either produce more or make a further sacrifice and lower our standard of living and economize both nationally and individually.

During the past years we have been like a camel lost in the desert, feeding on our hump, and the process is not a healthy one, and unless it is arrested by more production and greater economies, we shall certainly reach a stage of suffering and even greater unemployment.

The information which Mr. Vogel gives is in such simple language that it would be invaluable in schools and colleges, and in fact should be read by every voter, and might well form part of the instruction for young people throughout the country.

ARTHUR BALFOUR.

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INTRODUCTION

Unemployment is not itself a disease, but it is a symptom of industrial and commercial sickness. As is the case in human ailments, the first step towards effecting a cure must be to obtain a correct diagnosis of the complaint. As a rule a doctor has to weigh up the evidence of many symptoms to ascertain the basic cause of an illness, but in medicine there is an accumulation of knowledge and experience over many years, which provides sufficient information for the quick recognition of most diseases. It is true that some are not curable in the present state of our knowledge, but this does not prevent their diagnosis and a treatment which at any rate will not aggravate the complaint.

Unfortunately, there is not the same record of definite evidence in the case of the troubles to which Unemployment is due. Cause and effect are constantly confused in relation to industrial and commercial problems. It seems, therefore, essential to analyse the whole structure of modern industry and commerce if the basic causes of Unemployment are to be ascertained and removed.

Such an analysis might be regarded as covering the whole field of political economy. These notes do not pretend to attack the problem in this way. They are, rather, an outline of a process of reasoning whereby the writer has arrived at certain conclusions. So far as possible the facts are set out in simple form so that others, arguing on the same basis, may perhaps come to other conclusions and suggest alternative proposals.

A very great step in advance would result if an agreement could be come to between those of widely different political views as

to the causes of Unemployment, which each is earnestly and genuinely trying to combat. It is not sufficient to propound a policy based upon intricate and highly technical economic views. The support and adoption of any plan must rest upon public opinion, and this needs information in simple form. The very word "economics," conjuring up visions of statistics, dissertations on the money market and problems of international exchanges, is sufficient to frighten away the man in the street from a subject which directly affects his well-being.

At first sight modern conditions in Industry, Trade and Commerce are so complex that people soon abandon attempts to understand the basis on which their occupations rest. However, once it is realized that the system has evolved from the primitive method of bartering one commodity for another, many of the difficulties disappear.

It is not suggested that these notes cover the whole subject, nor is this their object.

They are intended as a simple explanation leading up to the very few really permanent factors in economics which are unaffected by time or place, and apply equally to every nation. They are also designed to make people think and apply a process of reasoning to their own conditions which may guide them towards a rational solution of Unemployment problems.

The notes are of necessity somewhat disjointed and not set out in a balanced literary form. Some factors under consideration can be dealt with in a few words, while others need more detailed investigation. They are, therefore, presented as a crude attempt to introduce common sense into a subject which is overwhelmed with theories and dogmas. They bear no political label, except that certain evidence deduced from a study of the past may indicate the logical accuracy of one party's policy, as compared with that of another.

The evils of Unemployment are so evident, and the urgency of a constructive

policy is so great, that it is a subject which should be studied by everyone, as it affects everyone. This, in itself, may be sufficient excuse for an attempt to diagnose the disease from which the nation is suffering.

CHAPTER I

THE GROWTH OF INDUSTRIES, TRADE AND COMMERCE

PRIMITIVE mankind, so far as any evidence exists, was gregarious only to a very limited extent. In the Stone Age each family was probably a more or less independent unit, although doubtless small communities were formed of those inhabiting adjacent cave dwellings. It is certain, however, that even at the beginning of man's life on this earth, as to-day where some small tribes exist remote from intercourse with the rest of the world, a system of barter and of possession of property existed. Anyone who acquired a surplus of some commodity over and above his requirements sought to exchange this for other things he wanted and saw in the possession of someone else.

The development of larger communities led automatically to specialized work by each individual and exchange of products. For instance, a man who acquired the art of making pottery could not feed on or clothe himself with his wares. He could, however, exchange them for his bodily necessities with those who cultivated the soil, or wove fabrics.

In considering even the earliest life in communities, it is impossible to overlook the private ownership of Capital. Individuals, families or small communities accumulated goods or property over which they claimed the full rights of possession. Food stored for the winter, seed saved for the next year's sowing, clothing and houses are all Capital, whether accumulated in small or large quantities.

The development of communal life is based on the possession and defence of property. As small communities were formed with different specialized tasks for each member, the system arose naturally

of combined defence against robbery by other communities. Every able-bodied member of the community was compelled to contribute part of his services to the common defence. At the same time there was developed the equally logical principle whereby certain individuals should be released from all necessity of producing goods for consumption or exchange, provided they performed duties for the benefit of the whole, or of a portion of the community.

For instance, a number of persons might contribute their services by catching fish in a river some miles distant from a village. The villagers could go to the river to buy fish, or the fishermen might carry it to the village for sale. Each, however, would waste a lot of time in so doing, and to help both parties an individual might spend his whole time in transporting fish to the village and carrying back other goods in exchange.

Thus transport, in itself a non-productive form of employment, is a service

rendered to both parties, and those thus engaged are entitled to their full share of the necessities and luxuries enjoyed by the community. History of the earliest inhabitants of the world is only recorded in the remains of cities and towns excavated and analysed with infinite patience by those who have made archæology their life's work. It will, however, suffice to realize that over a period of many thousand years human beings built up nations and empires to a very advanced state of power and luxury, and that these nations in succession crumbled away.

The prominent feature of all early civilization, by which is meant the utilization of Nature's wealth for the greater comfort of mankind, was its restriction through primitive and defective means of intercommunication over long distances. Beasts of burden were tamed and utilized to transport people and goods, but only at a slow rate. Ships were small and at the mercy of the wind and waves. In consequence, the

extent to which any kingdom or empire could hold its sway was very limited in comparison with what is possible to-day, and every community was self-supporting in respect, at any rate, of the necessities of life, through transport restrictions.

Nevertheless, trade and commerce were conducted over a wide area, which did not involve overseas transport. Europe, Asia and North Africa could exchange products with comparatively little shipping, and the first great empires centred in these regions.

The primitive method of exchange of goods by barter could not long cope with the expansion of trade between individuals and communities.

It was logical that some form of standard of value should be placed upon goods, and monetary systems were instituted wherever exchange of goods extended beyond a very limited area.

To-day we are apt to think of money solely in terms of gold as a standard. It is true that this metal was utilized for the

purpose from prehistoric times, but silver was, and to a large extent still is, a rival standard of value. In addition to these rare metals other standards have been used locally as circumstances have dictated. West African natives devised a currency of cowrie shells; salt, one of the necessities of life, is another form of currency, and cattle or sheep are standards where agriculture is the primary occupation.

Clear distinction must be made between currencies of intrinsic value and those which are tokens. The native who exchanges corn, fish or meat for salt is bartering one commodity for another, but the salt is a standard of value, and is utilized to assess the relative values of the corn, fish and meat. In the case of gold or silver the standard differs in that it is not consumable in itself. Ornaments or useful articles may be made of these metals, but at any time these may be melted down or utilized again for purchase of other commodities. Their use as a standard of value is really depend-

ent upon the limited quantity that has been won from the earth, and their indestructible nature. So long as the balance between gold and silver remained more or less constant the dual currency at a fixed relative value was a convenience in commerce. When, however, the Mexican mines poured out a vastly increased supply of silver, it became impossible for the world generally to assess gold and silver at fixed relative values, and internationally silver was displaced.

The next important movement in the growth of the world's commerce, which must be considered briefly, is the credit system based upon bills of exchange. If two communities purchase goods from one another on the basis of gold values, obviously it is unnecessary to transport the full value in gold in respect of each transaction from one to the other. Each, therefore, prepares a written document which states the money value of the goods, and the possession of this document gives the right of ownership of the

goods. Such documents are sent forward with or in advance of the goods, and the purchaser deposits in his own country gold or currency to the value specified in the documents, and thus obtains possession of the goods. Now, assuming transactions of equal value between two communities, the gold or currency deposited in each country is equal. Hence, it will suffice for those who sold the goods in each country to agree to take payment by gold already in the country, and no movement of the actual metal is required.

It is evident that to effect these transactions a definite connecting link between the two communities for the payment and receipt of the gold at either end is essential, and this function is fulfilled by the banks.

The growth of trade involving the monetary and credit systems was gradual, and on the whole slowly progressive over the centuries and tens of centuries which elapsed from the first primitive inception of commerce up to the middle of the nine-

teenth century. Of course, changes were vast between one period and another, but not sudden. Political history of the growth and decay of nations and empires records material differences in methods of trade, but the great revolution was effected by the introduction of rapid means of transport and exchange of news when steam for power and electricity for telegrams were put into use.

It is not unreasonable to argue that the world's industries, trade and commerce have developed and changed more in the last hundred years than they did in all the preceding centuries of mankind's existence. Under conditions of slow transport and equally slow transmission of letters, commerce involved risks of markets which no longer exist. A merchant, for instance, might ship a certain class of goods to India, and on arrival it might be found that another shipload of similar goods had recently been landed and had met all market requirements. Thus the second shipper

would be left with the goods on his hands, or would have to sell at a serious loss. To-day such a risk is unnecessary. Goods are not shipped until or unless orders have been placed by cable or quick mail service.

Further, international competition is possible. A buyer of wheat in the United Kingdom can ascertain the spot price in Canada, U.S.A., Argentine, India or Australia, and can choose his market to the best advantage. Delivery of goods from the Continent and even from America can be ensured within a week or two, and thus home produce does not hold the same advantage in respect of time of delivery, as before.

These considerations make the first half of the nineteenth century a critical date in the history of Industries and Commerce, and a general survey of the world's condition at that time forms a convenient basis for a study of the results of nineteenth century progress and of the Great European War.

CHAPTER II

CONDITIONS RULING EARLY IN THE NINETEENTH CENTURY

THE battle of Waterloo, in 1815, terminated a succession of wars extending over a century, and culminating in the French Revolution and the rise and fall of Napoleon.

Politically, the map of the world had changed materially during that long-drawn struggle. Europe was still the centre of production of all manufactured goods, and self-supporting to a great extent in agricultural produce. Spain, Portugal, Holland and France had all passed the zenith of their power as the heads of colonial empires. Britain, by consolidation of her command of the seas, had bitten off portions of the colonies of these several nations, and had occupied other territories that were practically uninhabited, and, despite the loss of

the North American Colonies, held sway over a largely increased empire.

The world was war weary, and, unknowingly perhaps, was straining to put into practical use the growing discoveries of Science.

A brief summary of the condition of the various nations is instructive.

France, exhausted by prolonged foreign wars, following the great social revolution, was in a continuous political turmoil with plots and counter-plots to secure to the Royalists, to the Imperial Napoleonic dynasty or to the Republicans, the control of the nation. Her people, with the industry and patience that is characteristic of the French peasantry, devoted their chief attention to agriculture, and by close cultivation quickly built up the lost wealth dissipated in warfare. Industrially, movement was not rapid, although the skill in craftsmanship of her people provided a substantial quantity of manufactured goods for use and export.

Germany was not yet a concrete proposition. The various states which ultimately combined to form the German Empire were still separate and prostrated by the victories of Napoleon. Prussia had made the quickest recovery and was advancing towards the control of the German speaking kingdoms, which was her ultimate ambition. Her strength lay also in agriculture, but long-established industries worked by manual labour or very primitive machinery were in course of development. Her central position in Europe, in direct communication with France, Italy, Austria, the Balkan States and Russia, gave her markets which could be fed by road and river transport.

The Austrian Empire dominated South-east Europe after centuries of warfare with Turkey. Agriculture again was the occupation of most of her people. In fact the restriction of overseas export before the introduction of steam involved agricultural production in each country, to meet the necessities of life. Industries productive of

goods for export were maintained, largely to purchase tropical produce demanded by the gradually improved standard of living.

Russia was almost entirely agricultural, but with a surplus production of grain that enabled her to supply some of the needs of other European countries.

Spain had almost entirely lost her Colonial Empire, which in the sixteenth century included the greater part of Central and South America. Portugal too was in the same plight, and Holland, after holding a commanding position in the East, had lost almost all except the rich islands of Java and Sumatra.

France, once mistress of Canada and India, had lost her hold on these possessions and was mainly interested outside her boundaries in securing a permanent footing in North Africa.

The United States of America were still in the throes of rapid expansion westwards. The barrier of the Rocky Mountains had been overcome, and with feverish haste

American-born and emigrant settlers spread through the middle-west to the Pacific. Minerals, and especially gold, were the loadstone attracting this stream of settlers, but ultimately land development and agriculture claimed the bulk of those who set out to find ready-made fortunes. Distances were too great for importation of foreign goods, and transport too primitive for even internal trade over wide areas. In consequence, industries for the provision of such goods as could be made locally followed the settlers and led to the rapid expansion of favourably-situated towns into cities and great industrial centres.

As a foundation for a study of unemployment conditions in the United Kingdom, a survey of the British Empire at this period is all important.

Politically, the British nation, after a long struggle between the Crown and Parliament, had established a form of Government which was essentially democratic. The Constitution, evolved over

many centuries, was elastic, yet was founded on laws which gave full protection to life and property. The loss of the North American Colonies had given a salutary warning against coercive policy in respect of colonial possessions, and it was realized that a great measure of freedom was essential for overseas Governments, with whom communication by letter required many months.

Conditions in the United Kingdom were undergoing a very rapid change. The development of the coal-fields, the invention of the steam engine and its application to railways were all within sight. Agriculture, hitherto by far the largest industry, was in difficulties in many respects through climatic conditions. The population was large in comparison with the land available for crops, and surplus wheat production in more favourably situated lands was available at prices below the cost of production. Hence, in support of Agriculture and for revenue purposes, import duties were in force on foreign corn.

The use of steam power and of large factories made it possible to produce goods at far lower cost and in vastly greater quantities than by hand in isolated cottages and villages. Hence, naturally, factories sprang up in and around towns, and a rapid increase of town population followed the demand for factory labour. It was soon apparent that many of those hitherto earning a bare livelihood on the land could be utilized to produce goods in factories, for which there was a world-wide demand from countries ready to give in exchange corn and food-stuffs at lower prices than those at which they could be produced at home. The town workers naturally objected to the taxes on imported food and necessities of life, and before the middle of the nineteenth century they were able to control the Government and abolish these imposts.

The start obtained by the United Kingdom in developing coal and factory production of goods very soon resulted in

this country becoming the workshop of the world. Raw materials, imported free of tax, were worked up into finished goods and shipped the world over to countries ready to exchange produce and luxuries for consumption in the United Kingdom. The sale of goods thus manufactured was so profitable that the income more than sufficed for the purchase of imported goods, and vast sums were invested in foreign countries and colonies overseas for the development of the land, public services and industries of those countries. Incidental to the rapid expansion of manufacturing, import of raw materials and export of finished goods, was the expansion of the British Mercantile Marine. Shipbuilding, first from timber and then from iron and steel, became an industry of primary importance.

Further, the world-wide sales of British-made goods involved commercial relations between the United Kingdom and every part of the world. Our merchants, thus brought in touch with the needs of every

country and trading with ample Capital at their disposal, did not limit their transactions to British goods, but bought and resold commodities of every kind for shipment from one foreign country to another, or for re-shipment in British ports. This, of course, gave further profitable employment for the merchant ships.

The British Empire of that date was very loosely combined. Many politicians, intent on the problems arising at home out of the development of industries, regarded colonies as superfluous and did not hesitate to advocate separation of any parts of the Empire that were prepared to take that course. The Empire included colonies of widely different origin. Some were already densely populated with natives and involved defence problems, but offered established markets for certain classes of goods. Others were highly cultivated, and others again were barely inhabited and as yet entirely undeveloped.

India, still ruled by the East India

Company, was already a market, and prospectively a vast market, for manufactured goods in exchange for tropical produce. Her population was engaged almost entirely on agriculture and large portions of her territory were still administered solely by native ruling princes anxious in some cases to improve the condition of their people, but in many others merely living in luxury on what they could collect by taxation. Left to herself without British control there was no possibility of the India of the period coalescing into a united nation, and especially so because of the basic differences between the Hindu and Mohammedan populations.

Canada, like the U.S.A., was spreading westwards, but was disturbed by fierce political discussions and was still suffering from riots and rebellion. The first railway, opened in 1836, initiated improved communications which ultimately loom large in the picture of a United Canada, divided only for administrative purposes into a few

great provinces. Fisheries were a highly important industry on the Atlantic coast, and agriculture was the main occupation. As in the case of U.S.A., industries developed to meet local requirements, but the population was small and the full productivity of Canada was as yet not realized.

Cape Colony, finally ceded by the Dutch to England in 1814, was barely more than a port of call for ships sailing eastwards via South Africa. Agriculture was the mainstay of her population, who, farming great areas, spread northwards across the Orange River and into the Transvaal. The constitution of Cape Colony was not granted until 1853, and the stormy political and war-ridden history of the South Africa Confederation belongs to the latter half of the nineteenth century.

Australasia was little more than uninhabited territory, seriously embarrassed by its use as a dumping ground for criminals from the United Kingdom.

Public attention in the United Kingdom was hardly turned to these territories until the gold discoveries in 1851, although the first foundations of what are now great cities took place early in the nineteenth century. It is noticeable, however, that the colonization of Australasia was essentially by British emigrants, and in consequence politically British ideas and customs were observed, with that demand for freedom that is characteristic of the race. Quite naturally, therefore, as soon as each of the Australian colonies could stand on its feet, government by a popularly elected House of Representatives with a constitutional representative of the Crown, was established.

The West Indies included a number of British possessions, the chief of which was Jamaica. These islands were highly important in supplying large quantities of tropical produce, and especially of sugar cultivated by slaves. A critical date in the history of the West Indies was 1807, when the slave trade was abolished within the

British Empire. Until then, and for a considerable period after, the British West Indian Islands were of importance as colonies out of all proportion to their size and populations.

Elsewhere, the British Empire included a number of possessions such as British Guiana and British Honduras, Cape Coast Castle, Malta and Hong Kong, which passed into the hands of Great Britain under various treaties, but were regarded only as of naval or military importance or as ports for British Mercantile Marine.

In 1811 the population of England and Scotland was just under twelve millions, and by 1851 had grown to over twenty millions. As indicating the migration of rural population to towns during the period of the growth of industries, it is interesting to note that, while the whole population had not quite doubled in these forty years, London increased nearly two and a half times, and Manchester, Glasgow and Liverpool over four times, while many of the other great

industrial cities of to-day grew from small country towns or villages.

It is difficult to-day to visualize life under the conditions ruling early in the nineteenth century. Agriculture occupied the attention of a great majority, and the squire was an all-important figure in village life. Nearly everyone lived and died within a few miles of where he was born. A journey to the nearest county town was an occasion, to London an adventure, and overseas a severance of all home ties. Many commodities which are to-day regarded as necessities were then luxuries and only within reach of the wealthy.

Education was confined to a small class, and the bulk of the population could neither read nor write. Hence the news of great events filtered but slowly through the country, and the policy of the nation was controlled by a very limited number, including a large proportion of the great landowners.

CHAPTER III

CAPITAL

BEFORE proceeding to discuss the changes wrought by the industrial activity of the mid-nineteenth century period, it is desirable to realize what is meant by Capital, and the relation it bears to industry and commerce.

As was indicated in Chapter I, money, or values expressed in terms of gold or other standard, are a convenience to avoid the cumbersome process of exchanging goods by barter. Money of itself is not Capital, but the buying power of money, that is to say the "goods" which can be exchanged for money, is Capital.

The simplest way to realize exactly the meaning of Capital is perhaps to consider it in its most primitive form. Among several communities within reach of one another, conditions may vary substantially. One

occupying rich land favoured by a good climate may be able to produce, year by year, a large excess of agricultural products over and above what is required for home consumption. This excess may be exchanged with a neighbouring community whose soil is not suitable for growing crops, but productive of timber, minerals or precious stones. Exchanges are effected on a basis of gold valuation, and the first community becomes possessed of commodities which can be utilized to produce permanent works or goods. The first community, through the high yield of her land, may require only a proportion of her labour as agriculturists and have available labour for other purposes. With this the minerals and timber are converted into houses, ships and other useful properties, or the precious stones may be cut, mounted and used for ornament.

Now it is obvious that these houses, ships and jewels are the permanent results of the annual surplus of agricultural products, and

that they are savings not consumed. Therefore, the unconsumed revenue has become Capital in these forms. The houses and jewels are not reproductive of national wealth, but factories or ships can earn further profits, part of which again can accumulate as Capital.

It must be realized, therefore, that the world contains a vast accumulation of Capital resulting from the unconsumed production of centuries, less the wear and tear of time, warfare or act of God. Again, the land fit for cultivation, and waterfalls capable of being harnessed to produce power, have a capital value in that they may be utilized to produce useful commodities.

Labour employed in producing these capital values is in itself, of course, accumulated as capital. For instance, if three-quarters of a community are engaged from day to day in producing goods for consumption or to exchange for consumable goods, the work of these persons is a contribution to the revenue and not to the

capital of the community. If the remaining quarter is occupied in producing goods or work of permanent value, such labour should be credited to capital, in the nation's accounts. This is important in relation to the employment of out-of-work labour. Money spent on employment for roads, houses, improved harbours, electricity production at lower cost, afforesting or the like is capital outlay. Such expenditure is, therefore, a national asset, and sooner or later produces revenue for the National Income. On the other hand, money spent on doles is purely subdivision of the National Income at the expense of the community collectively, and labour employed to make recreation grounds or improve the appearance of a town is an investment in a non-productive luxury except to the extent that the improved surroundings benefit the health of the population.

In considering how capital is utilized in relation to Industries and Commerce, first of all it must be realized that nations

collectively earn incomes and build up Capital from the surplus of their earnings over their expenditure. The National Income in this sense is not the amount collected by taxation, but it is the sum total of the earnings of all individuals, firms or companies who comprise the population.

The National Income is derived from various sources, which may be conveniently classified under five heads:

1. Natural produce, such as cereals, flocks and herds, timber or minerals.
2. The proceeds of the manufacture of raw materials into finished goods.
3. Services rendered to foreigners, such as ocean transport of goods.
4. Interest on loans to foreign countries or colonies.
5. Purchase and re-sale of foreign goods abroad at a profit.

From the national point of view, goods produced and consumed at home are just as much income, or revenue, as those sold to foreign countries, since if not produced at

home they would have to be purchased from abroad and paid for by other exports. This applies also to the manufacture of goods for consumption, since payment is made to the labour employed at home instead of to the foreign labour.

The total income from these sources is what the nation has to live upon, and if her expenditure exceeds this income it can only be at the expense of Capital. The standard of living of the whole nation depends upon the National Income that remains after national expenditure has been met. This expenditure may also be subdivided under three heads:

1. The purchase of foreign goods for consumption.
2. Payment for services rendered by foreigners.
3. Payment of interest and sinking funds on loans from foreign countries.

The net National Income after deducting this expenditure is again subject to charges which, however, are utilized in part for pay-

ing some of the population their proportion of the National Income. In the first place, national defence, including Navy, Army and Air Force, must be maintained, but the pay of the personnel and money spent at home on making munitions provides for payment of a certain number of those among whom the National Income is ultimately divided.

Next, Civil Government, including municipal expenditure, must be met, but in this case also those employed are paid from the money collected by taxation and rates. We arrive, therefore, at the final conclusion that the National Income remaining after all these expenses are met must be distributed over the population other than those employed nationally, and the extent of this surplus income will regulate the average amount available for each individual and consequently the standard of living.

In the past the National Income has exceeded national expenditure very largely, and not only have individuals received more than they have spent, and have, therefore,

accumulated Capital, but in addition the State has been able to levy taxes sufficient to leave a surplus, which stands as Capital in the national accounts. A direct illustration of this is to be found in the purchase of the Suez Canal shares. This expenditure was made from money raised by taxation, but the shares are held by the Government on behalf of the nation and are a Capital asset.

Public buildings, municipal public services and many other forms of property are national possessions and form part of the nation's capital.

These explanations have an important bearing on National Economics relative to Unemployment, and may with advantage be summarized briefly thus:

The National Income after meeting national expenditure leaves a surplus, which is the measure of the average standard of living of the community, and this standard can only be improved by increased national income, decreased national expenditure, or both.

The Capital owned by the nation and individuals is utilized in industries and commerce. As has been shown, railways, harbours, factories and machinery for producing consumable or saleable goods have been accumulated over a long period. These are the tools of Industry and Commerce and represent Capital sunk, which has a definite money value. This is clearly demonstrated by the assessment on such property for rates and taxes. The National Capital vis-à-vis other nations is not a definite ascertainable figure, and it depends to a considerable extent on factors which are liable to fluctuation. Each nation which issues currency is presumed to be in a position to meet that currency by gold, and the extent to which it is considered possible for this to be done regulates the world's valuation of the currency.

Now, if a nation has failed to meet interest on money borrowed from abroad, or is involved in revolutions or serious internal troubles, her currency will not be accepted

at its face value relative to gold, and through the depreciation of her currency thus resulting, her capital is reduced in gold value. As a simple illustration a case may be considered where a country has a Capital assessed at say a hundred million pounds in dollars of a par value of twenty dollars to an ounce of gold. This assessed Capital is available for her commerce. Foreign nations will send goods freely in exchange for other goods based on her currency values. Now, supposing a revolution occurs, and other nations, foreseeing a long period of industrial and commercial stagnation, fight shy of her currency ,and it depreciates to 50 per cent. of its face value relative to gold, it is obvious that the National Capital is reduced in value by one half, and the nation's ability to produce goods for exchange is equally affected unless such goods are entirely produced from home-grown raw materials.

The first essential, therefore, towards continued prosperity of industries and

commerce is the maintenance of national credit, so that the gold value of currency is not depreciated. This is demonstrated clearly by considering how Capital operates in industries and commerce. The bulk of the factories and businesses are the property of private individuals or groups of individuals who possess property mostly in the form of credit in the currency of their own nations.

In order to produce goods and exchange them with other nations it is necessary to spend money on the purchase of raw materials, on power, on labour and on transport, and this is the function of Capital. It is true that extended time for payment for certain parts of the outlay, such as purchase of raw material, may be arranged, but credit of this kind is only obtainable by those whose financial position, that is available but not necessarily liquid Capital, is known to be sufficient to enable them to meet their engagements.

Capital is, therefore, a reservoir from

which payment is drawn in advance for the production of goods and repaid with some interest when the goods are sold and paid for. Consequently, if the reservoir of Capital sinks to a low level, the production of goods is curtailed and the profits are correspondingly reduced.

It is convenient in this complex problem to consider an actual transaction as an illustration.

Assume the case of a bootmaker who owns a factory and is offered an order for 6,000 pairs of boots for delivery abroad over three months, with payment at thirty days from date of delivery. He has to consider the various factors involved, including the amount of Capital required to finance the transaction.

First of all he must buy leather and other raw material and must pay his work people week by week. He must also pay on monthly account for coal and other costs of manufacturing.

Now, taking every item of cost of manu-

facture into account he may estimate the cost at 10s. a pair. He must then consider what capital will be involved. He must make 2,000 pairs of boots each month and must wait a month for his money, so that before he receives any payment he will be out of pocket for two months' work, or £2,000. He may not have this amount actually in cash, but his factory and other property are known to his bank as being worth a considerable sum, so he can borrow from them at a reasonable rate of interest the necessary amount to enable him to wait for his first payment, but he must include such interest in his costs. If the sale is abroad and involves payment in the currency of another country he must take into account possible fluctuation in the value of that currency relative to that of his own country. In orders for the home market this will not affect him, as he will pay and receive in the same currency.

The essential point is, however, that unless he has or can borrow the necessary

Capital to produce the goods, he cannot do the business, and therefore the production of the goods, the employment of labour and any profits are all dependent upon Capital being available.

In concluding these references to the nature and use of Capital, a few words on the much abused Capitalist may not be amiss. As has been shown, Capital consists of every form of property or goods which can be given a money value, whether it is a suit of clothes or a steam yacht. In fact, up to a point, everyone is a Capitalist, whether he owns only what he stands up in or vast possessions. Capitalists, as distinguished from labour, are really those people who own accumulated Capital, whether saved from income or inherited, and utilize this to pay for goods in course of production and await repayment until after the goods are sold. The reward for such services to industry and commerce may or may not be excessive, but it is obvious that services are rendered and that, therefore, a reward is

justified. It is equally obvious that some method of paying for goods in course of production must be devised if the Capitalist system is destroyed, as otherwise while the grass grows the horse starves.

The alternative, whereby a community or nation collectively owns all Capital, is advocated by Socialism, but this runs counter to human nature, and removes all incentive to progress, since the production of any surplus above his requirements for consumption is no longer sought, as such surplus instead of accumulating as his own property for the benefit of his children, passes out of his hands to the State.

CHAPTER IV

THE IMMEDIATE PRE-WAR PERIOD

THE period which led up to and terminated with the Great War is remarkable for the vast and rapid changes in the development of industries, commerce and world trade. In this, at first, the leading part was played by Great Britain for reasons which were natural. Following the adoption of coal for the production of power and for smelting iron and other metals, the capacity for production called for improved transport to gather in raw materials, to distribute manufactured products and to collect goods in payment for exported manufactured products. Internally, railways quickly replaced roads and canals. Steam, first used for power and land transport, was soon adapted to ocean-going ships. Voyages which formerly lasted months

were reduced to weeks or even days. Cargoes previously limited to hundreds of tons quickly grew to thousands, and perishable goods were transportable over long distances without damage. The new worlds of North America, Australasia and South Africa had attracted population largely by discoveries of gold and other metals, but the bulk of those who sought fortunes ready made found their Eldorado in tilling the soil or breeding countless herds and flocks on the natural pastures in these favoured lands.

It is not suggested that the British held a monopoly of invention or of science applied to industries. Progress and improvement emanated from every country where education and science were cultivated. Nevertheless, Great Britain had gained a substantial start in factory production of goods, and as each successive improvement was evolved she put it into practical use.

The production of iron, the evolution of

steel, the weaving of cotton and woollen fabrics, the manufacture of chemicals and the development of a vast number of industries led to the establishment of these islands as the workshop of the world.

The supremacy and almost monopoly of Great Britain in the production of highly manufactured goods was, of course, temporary, but while it lasted it was the source of vast wealth. America required railroads—British rails, engines and wagons poured into that country. India needed cotton goods, and while America grew increasing crops of this tropical product, England kept pace in producing from the raw cotton she imported every variety of finished cotton fabric India and the world required. This vast growth of industry and commerce quickly modified the occupation of those who lived in Britain.

Industries demanded labour and quickly drew manual workers into towns and cities from the fields where a bare livelihood was obtainable. Experience and apprenticeship

produced skilled workers in every industry. The control and development of factories required men with education and brains. The country squire saw his sons defy prejudice and seek employment in industries and commerce.

The great industrial movement called for allies with those who were engaged upon the production of goods. Merchants, with widespread tentacles, gathered the raw materials required by industry from the four corners of the world, and distributed in exchange the manufactured products. Financiers, crystallizing into great banking institutions, gave facilities for producing and exchanging goods, and created the vast fabric of commercial credit which is the life-blood of industry and commerce. Ocean transport bred the Mercantile Marine with its enormous sea-going and shore establishment, and was responsible for the sister industry of shipbuilding.

The accumulation of wealth invested largely abroad, and drawing as interest an

annual tribute of necessities and luxuries of life, created a demand for the amenities of life, to supply which a large number of the population found employment in non-productive occupations.

The Capital system was paramount in the world. That is to say, every country produced goods, whether natural products or manufactured articles, to the order of Capital, for wages found by Capital in advance of production. The interchange of these goods against fixed values was effected by Capital, which imposed a toll for services rendered.

Naturally, the world was not content to watch one or several nations accumulate wealth without desiring to appropriate some or all of it, and for this reason armaments for defence were multiplied and extended by every nation, thus deflecting the services of a large number of persons from productive to costly and non-productive occupations.

In the last fifty years of the period under

consideration, that is to say from 1870, onwards, the changes in social, political, industrial and commercial life grew more and more rapid. It is only necessary to sketch these in broad outline to summarize conditions ruling in 1914.

Socially, the world was affected by the spread of education. Reading and writing were universally taught in those countries which were entering into industrial activity. Governments grew more and more democratic, with a distinct tendency towards power concentrating in the hands of the wealthy. Money began to talk, and in no uncertain tone. Travel was easy, and the knowledge of conditions in other countries led each to seek advantages seen abroad, regardless to some extent of the danger of introducing alien ideas into old civilizations too rapidly. A noticeable feature of this period was the growth of the power of the Press. Widespread primary education prepared the soil in which the printed word flourished, and advanced political and social

views were disseminated in a way that was utterly impossible by word of mouth. The influence of the Press grew, and is to-day powerful to an extent that it is difficult to realize. Ready-made opinions are easily digested and require no mental exertion. In the long run, democratic government conforms to public opinion, and the extent to which this opinion is moulded by the Press is difficult to gauge, but it is certainly very considerable.

Another feature of the pre-war period was the increasing participation of women in national life. More liberal education, more freedom and the determined fight of a few masterful and clever women broke down bar after bar of the cage in which women were imprisoned, and started a movement of which even to-day we have only seen the beginning.

The scientific achievements of the half century were colossal. Electricity alone has had a revolutionary effect on our industrial and social life. The ability to

convert water power directly into electricity and thus provide power for manufacturing at a low cost moved the economic centres of more than one industry from coal producing areas to the neighbourhood of waterfalls. Oil became a rival of coal as a fuel. Metallurgy found uses for metals that formerly were unknown or were scientific curiosities, and by patient research alloys were produced which are important factors in industry. The telegraph and the telephone, now possible without wires within certain limitations, materially modified both the commercial and social sides of life. Rapid transport by rail, road and air were equally important factors, to an extent in fact that makes it almost impossible for the youth of the present generation to visualize life even thirty or forty years ago.

The condition of the world in 1914 when the great upheaval took place may be briefly summarized, and this will form a basis for consideration of the effects of the war.

The production of the essential food-

stuffs by agriculture, while still important in most countries, had developed on a big scale in those lands where virgin soil could raise large crops cheaply, and the production in these countries was so great and at so low a cost that agriculture in less favoured lands declined. In the United States, then in Canada, Russia and other countries, grain far in excess of local consumption was produced and exported in exchange for manufactured goods or products which could not be made at home.

Extensive coal-fields were developed in various parts of Europe and America, and with these the manufacture of iron, woven fabrics, chemicals and other heavy industries was started. Germany, enriched by successful wars with Austria and France, threw herself wholeheartedly into the development of industries, and U.S.A. with her rapidly increasing population, enormous home market and natural resources began to shape her policy towards internal production of all her requirements.

In the meantime, the accumulated wealth and steady flow of profits of Great Britain were utilized as investments for developing not only the natural resources, but equally the industries of other nations. British Capital was loaned to build railways, harbours and factories abroad, where the population had grown in excess of that required to maintain the necessary output of agricultural produce and minerals. The infant industries in these countries, except where favoured by cost of transport as against imports, at first were unable to maintain themselves in competition, and to protect them tariffs were imposed on competitive imported goods.

Under this protection, industries in U.S.A. developed at lightning speed. Ores of iron, copper, zinc, lead and other primary raw materials were mined on a very large scale, and the persistent demand of the home market justified very large scale production and consequent low costs. In certain industries goods produced in this

way in excess of home requirements were manufactured at a low enough price for export and competition in the open markets of the world, which included England, where free import of goods was the logical policy that had developed when she was the chief and almost the only producer of factory-made goods.

Germany, in similar manner, developed her industries by protection, and financed them largely by loans of British Capital. The natural products and consequently national wealth of Germany were considerably below those of U.S.A., and the standard of living was correspondingly lower. Hence, although her home market was less, her costs of production were low. Her industrial products, therefore, were manufactured at lower prices than those of U.S.A. and England, and she became a keen competitor in the open markets.

The same process of industrial development by tariff protection was put in operation by other countries, including the

great overseas Dominions of the British Empire, and Canada, Australia and South Africa had begun little by little to produce goods previously manufactured in and exported by Great Britain.

The long period of industrial activity in Great Britain had developed specialized labour for different industries, and gradually each class of labour had drawn together for mutual protection by the formation of Trade Unions. This movement had an important bearing on the production of manufactured goods, and will be considered as a special factor in the diagnosis of unemployment. In summarizing conditions just before the war it will suffice to say that sectional and local strikes of labour were responsible for increased costs of production of goods, and consequent loss of markets in competition.

The wealth of Great Britain accumulated over the previous century, and the free market within her borders, had naturally constituted this country, and especially

London, as the gold market of the world. All goods were valued against gold, and in London with its free market and its gold reserves every commodity could find buyers and sellers, whether the goods were actually shipped to or from England or directly from one overseas nation to another. A very large proportion of the world's trade was conducted on Bills of Exchange on London.

A general review of conditions in 1914 indicates that by experience and evolution the supply of and demand for goods of all kinds throughout the world were balanced within the reasonable limits of variation due to natural causes. For instance, the world grew enough wheat, barley, oats, sugar, tea, coffee or other cultivated crops to meet the demand subject to slight excesses or deficiencies due to good or bad seasons.

Coal, iron, copper, timber and other raw materials were brought to the markets in sufficient quantities to meet demands with

comparatively little margin above or below current requirements. What was equally or more important was that the world's capacity for producing manufactured goods was approximately equal to the demand, and new factories were erected only after careful investigation to satisfy those interested that markets existed for the proposed increased output.

This levelling up of the world's production and demand was essentially international. Where industries were installed and extended under protective tariffs, those countries which formerly exported the goods lost these markets, but fresh markets were constantly being cultivated. Some industries, of course, moved altogether from one country to another, but the transfer was gradual, and labour previously employed on the industry was absorbed in other occupations.

Finally, just prior to the war, the long period of peace had impressed on the world, and especially on the financial world, a

feeling of security which resulted in a maximum output and interchange of goods. This feeling of security was essential, since Capital for the production of the goods must be forthcoming before the interchange can take place, and if there is any doubt thrown on the ability or willingness of one party to produce, Capital naturally will not provide the means for turning out the corresponding products for exchange. It must, therefore, be realized that just prior to the war the world's industries and trade were running on smooth lines, disturbed only by local and minor troubles which affected small numbers of the world's population. A revolution in Central America, an earthquake in the Far East or a famine in India reduced production locally and affected the production of those countries who were accustomed to exchange their manufactured goods for these products. These, however, were only ripples on the ocean of commerce, and they soon died away and were forgotten.

CHAPTER V

PRE-WAR LABOUR. FIRST PERIOD

UNEMPLOYMENT is a disease which affects labour primarily, and to study the problem of its diminution and cure involves a careful survey of labour conditions prior to, during and after the War.

There are many controversial questions involved, but these need not be discussed if certain conditions are regarded as being definitely established, the alteration of which would involve a revolution and not an evolution of our social system.

In the first place it must be realized that throughout the world a wage system was and is employed to pay labour, or in other words to allocate to workers their proportion of the National Income of the country in

which they work. Such a system naturally involves difference of opinion between labour and employer as to the rate of wage that should be fixed for each class of work. Labour requires a wage which will suffice for living expenses and as much more as can be obtained. Employers, whose own remuneration depends upon the difference between the cost of production and sale price of goods, naturally are anxious to maintain wages at a figure which will leave them profits.

Conditions of partnership between employers and employed whereby the remuneration of each depends upon profits are not possible, unless accompanied by a definite minimum wage payment to labour, since workers with little or no Capital must meet their costs of living day by day, or at the most, week by week. Further, they cannot face a rate of pay derived from profits which may not suffice to yield a living wage.

Up to the present, therefore, the wage system has not been displaced except where

under very favourable circumstances co-partnership is possible to the extent of additional remuneration for labour out of profits over and above bare living wages.

Thus, assuming that payment of labour by wages is an existing, and, for the present, an unalterable system, some examination into the different classes of work in receipt of wages is essential.

It has been pointed out that the National Income is, and must be, the measure of prosperity of a community, and that the surplus after meeting certain definite national expenditure is the amount available for distribution over the whole community. Labour is not all engaged on producing the National Income, either directly or indirectly. Those who work on the land or in mines or catching fish produce commodities which are consumable or saleable and consequently form part of the National Income. Equally, those who convert raw materials, whether home-produced or imported, into finished

goods for consumption or for sale abroad are helping to fill the national purse. Incidental to the production of National Income by these workers there are many services which are requisite, and these, so to speak, are an overhead charge on the production of commodities by the nation. For instance, there must be houses, railways and other transport facilities, lighting, water supply, medical attention, and all the essentials for maintaining the life and health of the population. Existing houses, railways and other public services have been constructed from profits in the past, and have become part of the national capital, but year by year these must be maintained, increased and operated by labour. Finally, in addition to the necessities of life, provision must be made for supplying the amenities and luxuries of life to the extent that is possible relative to the National Income. For these purposes part of the population devotes its energies to educating, contributing to a higher scale of life, or

amusing the community. A little consideration will show that the standard of living of a community is measurable with considerable accuracy by estimating the relative numbers of those engaged on production of the income of the community, and of those who are either idle or employed on work which gives comfort, pleasure or amusement to all or part of the population, but is not essential to bare existence.

This conception of the subdivision of the population may be illustrated by considering the case of, say, a dozen men wrecked on a desert island with little or no salvaged goods.

These may include, say, a doctor, an artist and a professional musician. At first, to keep alive, food and shelter are the essentials and everyone will have to turn his hand to the production of something of this kind. The doctor, while doing what he can for one or two sick men, would have to spend most of his time with the others collecting or cultivating food, building huts and providing

necessities. The artist could not occupy himself in his special line, but would have to turn his hand to production of something essential for life, while the musician would find no time for his art in a community which, for a while, would be compelled to divide their time between work and sleep.

Under favourable circumstances, perhaps, conditions would improve. Huts might be completed, food sufficient for some weeks or months might be collected, and the daily fight for the necessities of life might become less strenuous. Then, but not until then, the community might welcome the doctor spending most of his time searching for plants or herbs from which to make drugs in case of illness. Equally, they might encourage the artist to decorate their huts and might be glad to listen to some music while they, perhaps, were busy themselves in making fishing lines or clothing in the evening.

This illustrates the development which has taken place over centuries in this country.

When all goods were hand made and agriculture was largely carried on by spades and hand tools, the bulk of the population had to share in this work. When, however, machinery replaced manual labour, the output of a smaller proportion of the population sufficed for providing all the goods required for consumption and export, and more and more people could be spared to engage themselves on non-productive employment. More doctors could be supported by the community, so that more time could be spent in medical research, to the ultimate benefit of all. Further, owing to the innate failings of human character, government and control of the individual were essential, and men could be spared to formulate and administer laws for the benefit of the community, and generally speaking, to organize a collection of individuals or families into a community in which each had his rights and privileges.

From this illustration it is obvious that the extent of the National Income and the out-

put of goods per head by those engaged on production must in the long run directly influence the number of those who can be supported as idle or non-productive members of the community.

Now, during the long period between, say, the Roman occupation of part of Britain and the middle of the nineteenth century, labour went through various phases of full employment and partial unemployment. The fluctuations were largely traceable to political and social upheavals, but steadily throughout the period can be traced improvement in the position of labour. At first, when most were employed on agriculture, the system was not far removed from slavery. Land was held by a comparatively few, and these exacted work from the majority and left them barely the necessities of life. It is difficult in our present condition to realize how and why the great bulk of the population submitted to the demands of the ruling classes, but undoubtedly the teachings of the Church,

which was the largest class with any education, materially assisted in maintaining this position.

Little by little, however, a growing attitude of rebellion against serfdom can be traced in the history of the Middle Ages. The yeoman farmers individually and collectively forced a recognition of their rights to a greater interest in the produce of the land they worked. Master tradesmen banded together into Companies or Guilds and established rights to produce and trade in goods. Then again, their apprentices made it clear that they claimed rights of greater freedom.

The greatest schisms of the period can be traced largely to religious differences, natural at a time when education was very limited and faiths were painted in harsh, contrasting colours, without any half tones. From the sixteenth century onwards those whose grievances were too great to be borne, and those who had suffered defeat in the struggle to enforce their views on the whole

nation, found an escape from impossible or hopelessly miserable conditions by emigration to the new worlds which navigation had made possible. Probably by far the greater number of those who formed the first colonists in America and the other sparsely populated lands were influenced by a feeling that conditions could not be worse there than those they experienced at home. In the meanwhile, throughout the Middle Ages, this country, although often rent by Civil War and bloodshed, nevertheless continued to support the population by produce of the land, and to accumulate capital in the form of buildings, houses, harbours, ships and goods. It was a daily struggle for existence for those men who had first planted crops on land cleared by their own hands of timber or undergrowth, who had built houses and farm buildings and had accumulated stocks of cattle and sheep. Their children and grandchildren could carry on the work with less labour, and found more leisure for mental exercises and cultivation of the arts or

pleasures. The fresh generations, in other words, had the benefit of the accumulated Capital.

In respect of manufacturing, apprenticeship and manual skill were the tools. Transport was primitive, and many commodities had to be produced almost on the spot. The village smith hammered iron into ploughs and spades. A farmer in Sussex could not send to Yorkshire for his farm tools, even if they were being made there to better advantage or of better quality.

Throughout the country, therefore, were small centres of production of manufactured goods for local consumption. In some places conditions and often some inventive or ambitious brain led to intensive production of certain articles, such, for instance, as woollen goods, of which the output sufficed to leave a substantial proportion available for export. In these cases, however, the individual was the unit of production, and competition reduced each individual's profits to an amount which

barely sufficed for living. Nationally, these manufactured goods, exported through merchants in exchange for foreign products, formed a source of income and wealth. Taxation to pay for the service of the State, the defence and the upkeep of the Royal Household was largely obtained by duties imposed on the imports paid for by the export of surplus production.

Thus, all surplus production contributed to the national expenses, since the payment received was subject to taxation. At the period just before the nation had put in use coal, steam and mechanical means of production of goods, labour had reached a stage of considerable political freedom, but largely for want of means of transport it was compelled to perform its tasks for a bare livelihood, dependent upon the generosity or greed of those who undertook the marketing of the surplus production overseas or in distant parts of the country.

Early in the nineteenth century factory production of goods, followed by rail-

way transport, was put into operation. Although by the use of machinery the requirements of the nation for its own consumption could be met by the labour of fewer hands, the demand for these goods by foreign nations entailed so great a production as to necessitate the services of a vastly increased labour force. Profits on manufacturing were big, and consequently wages at a higher rate could be paid than was possible for agriculture, although the pioneers of manufacturing advocated and were careful to pay only just sufficient to attract men from the land.

In respect of the rapid increase of manufacturing, it must be borne in mind that this effected a great and far-reaching social upheaval in itself. In various manufacturing districts, and especially in the north of England, those who initiated the factory production of goods were not the landed classes, to whom hitherto the bulk of labour had looked for work. Masters and men were essentially equal in origin, but split

up into employers and employed, through force of character and mental capacity. The first masters of small manufacturing concerns destined to grow into great industrial units, themselves worked tirelessly and were a hard-headed and hard-fisted class. They had no great resources at their backs to start with. They had to earn, save and build up their Capital, and it is not to be wondered at that they were hard task-masters. It was only gradually and late in the day that the squire or landowner, seeing his income from land dwindling away, himself took a hand in developing industries or permitted his sons to seek their fortunes in trade.

It is easily ascertained, and vastly to the credit of British character and the freedom of the British constitution, that a large proportion of the leaders in industry and commerce of to-day, are descended from those who founded their own fortunes a very few generations back.

Thus, during the first half of the nine-

teenth century, labour was still tied closely to its native locality through transport difficulties, and was engaged in learning new trades in the rapidly increasing factories. Municipal enterprise had not yet begun, and employers were private individuals or firms. Child labour and every device for cheap production were permitted. Education, housing and the well-being of workers were neglected almost entirely. The National Income grew enormously, but its subdivision was unequal, and very little of the increasing wealth of the nation found its way into the pockets or for the benefit of the manual workers.

In many respects it was a period of national economy, in that the increasing revenue from abroad was not spent on increased luxury at home, but re-invested at home and abroad in productive enterprise. This brought in its train further revenue, but it was a considerable time before money was spent freely on the improvement of conditions of life for the population generally.

One important point must be borne in mind in connection with the great industrial movement of last century. Labour was drawn in great numbers from agriculture to industries, and eventually by the repeal of the Corn Laws growing crops ceased to be a paying proposition, and reduced the incomes of those dependent on agriculture to vanishing point.

Hence, it may be said that the Industrial movement and free import of agricultural products not only produced great national wealth, but diverted a very considerable proportion of the nation's income from the pockets of agriculturists into those of industrialists.

CHAPTER VI

PRE-WAR LABOUR. SECOND PERIOD

It would require a volume to review in detail all the industries which were established during the nineteenth century. The textile industry alone was productive of a vast number of subsidiary or concurrent industries, such as the chemical trade and engineering. No one industry grew by itself, and the demand for products was mutual between makers of different classes of goods. The glass trade required chemicals, and the chemical trade needed glass. Engineers required steel, iron, brass and other metals, and the smelters and miners of these metals in turn required mechanical appliances. In fact the whole industrial system is closely interwoven, and

manufacturers are interdependent on one another.

Again, industries collectively required coal for power and railway and overseas transport, which led to the development of these accessories into great industries themselves. While these movements were in progress labour was slowly developing into sections devoted to certain lines of work. Coal miners, engineers, seamen, railwaymen and numerous other skilled manual workers learnt their jobs and began to pass on their knowledge to the younger generation by apprenticeship and technical training. Education made enormous strides. Reading and writing were taught universally, and compulsory school attendance for children was established. Concurrently with education, newspapers grew in numbers and circulation, and with the development of telegraphic and cable communication the whole community obtained rapid information of any notable events. With improved means of communication

and transport throughout the country, workers could circulate over wider areas and were no longer dependent on local employers for work. To move from Liverpool to Manchester, Sheffield to Leeds, or even Glasgow to London became less of an adventure than migration from one village to another within ten miles had been formerly. A logical consequence of this was interchange of information on the subject of rates of wages for similar classes of work, hours of employment and output.

During the first half of the nineteenth century both workmen and masters were subject to very severe restrictions against combining to effect any object, even if legal in itself. A man might throw up his job if his wages were too low, but if half a dozen men arranged to do so simultaneously they were liable to punishment for conspiracy. Under these conditions Trade Unions started mainly in the form of friendly or mutual benefit societies, but gradually public opinion prevailed, until in

1871 and 1876 Acts were passed which recognized the legality of actions by a combination of persons, provided such actions were legal for individuals.

The growth of Trade Unionism was in waves corresponding with periods of national prosperity, and this, of course, was natural, since at such times the demand for labour equals or exceeds the supply. Thus, in 1871, there was great activity in Trade Union expansion, and then a retrograde period in the years of depression following 1875.

The London Dock Strike, 1889, contemporary with a trade boom, marks the definite adoption of Trade Union principles by unskilled labour.

The development of Trade Unionism in this way was paralleled, but to a less extent, by the formation of Employers' Associations. In the case of great industries, such as the engineering trade, both employers and employed came to recognize the advisability of combined bargaining, and have

been able to avoid many strikes and lock-outs by negotiation.

The complex situation arising out of the numerous industries and trades involved in modern production of goods led to the subdivision of manual workers into numerous Unions, each comprising those skilled in special work. The subdivisions in many trades are very indefinite, so that lines of demarcation are extremely difficult to define. This is even more apparent in the semi-skilled and unskilled industries, where men occupied on precisely the same work may be members of different Unions.

One feature of Trade Unionism in relation to industries is thus the subdivision of the working population into numerous sections, each of which claims to control a certain class of work, and its members cannot work on jobs which do not come within the restrictions of their Union. This almost amounts to a caste system, such as has grown up in India on a religious basis. It has very materially

affected industries, since those which are busy cannot draw on those which are slack for temporary assistance, except in absolutely unskilled work.

The problem is admittedly difficult, but it has a very distinct influence on unemployment, and must be taken into consideration when attempts are made to remedy this evil.

Another problem arises out of the enormously increased number of workers engaged on municipal and other work which does not produce goods for which there is a world's market value.

As has been pointed out above, the payment made for such services is really the proportion of the National Income allocated to the individuals so engaged. If a gang of men receive a certain definite sum for doing a job it is obvious that by previous arrangement this can be divided up in different proportions based upon the skill or hard work of each. Under such conditions none of them would contemplate the least skilled

man making such a demand as to leave the shares of the skilled men less than the amount drawn by the unskilled.

This, however, is exactly what happens when labour, employed on what are known as sheltered industries, demands more and more pay, while those whose wages depend on the world's market value of the goods they produce must be content to receive on a division a far lower wage. These problems have become far more prominent in the post-war period, which will be considered later, but even a long while before the war the relative payment for different classes of work was a problem that caused continued friction in industries.

There was, however, this difference. In the period immediately preceding the war this country enjoyed an immense income from foreign investments, and year by year was reinvesting further sums in this way. The National Income and wealth from this source are difficult to gauge either in actual money value or in relation to income derived

from industries, merchanting or services rendered. In effect, therefore, the rise in wages of a class of labour engaged on municipal or public services work was spread over the population and paid out of surplus revenue, which otherwise would have been reinvested. It was the case of a man with a large income having to pay more rent, which he could do from his income, but by sacrificing some of his normal annual savings.

If and when the National Income fell to an amount that would not provide for annual expenditure, with some excess for reinvestment, it is the case of a man living up to the full extent of his income who is met with a demand for more rent. He must either refuse the demand, take a smaller house, or pay the difference out of Capital.

Turning again to the position of labour before the war, it must be realized that conditions had not changed suddenly or radically for a long period. Education,

Trade Unionism, emigration, cost of living and the governing factors in industry had developed in unison, and over a period of years showed vast changes. These, however, were of the nature of evolution and not revolution. Old-established industries became inefficient or local conditions in foreign countries made competition impossible. High protective tariffs abroad robbed this country of markets and reduced the output that was saleable, but simultaneously new industries arose and labour drifted imperceptibly from one occupation to another.

The supply of labour for industries, although on the average slightly above the demand, nevertheless closely approximated what was required. Again, the great National Income caused a demand for many luxuries which gave employment. A very large amount of labour, for instance, was engaged on building and maintaining a big navy and an efficient, if comparatively small, army. This, paid for out of the

national purse, provided work for a large number of the population.

The chief bone of contention in those times, and one that is justified probably in the light of events, was the relative reward for workers and those who provided the capital necessary for the nation's industries and commerce.

CHAPTER VII

FISCAL POLICIES

INDUSTRIES and commerce are materially affected by the fiscal policies of different nations. This is obviously an economic problem, but unfortunately in the United Kingdom, and to some extent in other countries, it has been allowed to develop into a political controversy.

The prosperity of any nation or community in the long run depends upon the output of consumable or saleable commodities. If a country possesses great natural resources, whether in agricultural products, minerals, timber or cheap power, she possesses the potential source of prosperity for the population. The greater the natural resources the fewer people are needed to produce sufficient

for consumption and export in exchange for the necessities of life not produced locally. Thus, the relative natural resources and population set a standard of living, since those not needed for the production of necessities can be utilized to provide the amenities of life.

Some sort of a classification of the different types of community or nation is helpful in considering the fiscal policy which is likely to be adopted, since the conditions dictate the policy and not vice versa.

In countries which possess large and well-developed supplies of coal and iron, together with a large population, but are comparatively poorly equipped for agriculture, it is obvious that manufactured goods can be produced to advantage and food-stuffs with difficulty. Hence, the best economic policy is to manufacture goods and buy food.

In countries which possess large and well-developed supplies of fuel and raw materials, together with productive agricultural land, there is no reason why the community

should not be practically self-supporting, provided the population is large enough to produce and manufacture all the goods needed for a good standard of living. Such a condition is, of course, not absolute, since commodities obtainable from the poles to the equator are utilized under modern conditions, but a comparatively small export will suffice in such a case to purchase all that cannot be produced.

Another condition may be that of a densely populated agricultural country whose population can produce some excess of products over their requirements for consumption, which are large. In such a case manufactured goods are greatly in request in exchange for natural products, but the number of the population makes it desirable if possible to organize industries which will find employment for part of those ~~not~~ actually needed to cultivate the soil. Again, where a country is sparsely populated but rich in production of agricultural, mineral and other natural resources, the import of

manufactured goods is large, but as the population grows there must be a desire and tendency to work up raw materials into finished goods instead of exporting raw materials and re-importing the finished goods. Now, in every case defence and civil Government necessitate taxation, and one problem to be solved by each community is the same. How can the necessary money best be raised without unduly taxing one part of the community relatively to another?

There are two obvious alternatives. One is to assess each individual and demand payment in cash, and the other is to impose taxation on the goods each must buy, and thereby collect amounts which are relative to the buying power or income of each individual.

In early times the system of taxation by duties on imported goods was adopted everywhere, but combined in most cases with extortion of money by thinly veiled threats, or even torture. As industries were established even before the days of factory pro-

duction, protective tariffs were imposed and export of raw materials was controlled or prevented altogether. The British Empire was originally conceived on highly protected lines. Colonies were acquired as preserves for the Mother Country to which all their export products had to be sent, and from whom they had to buy all their imports. Virginia, for instance, could not ship tobacco to France or Holland direct. It had to pass through the hands of British merchants and be transhipped from England. This principle of colonization was the bone of contention between the North American Colonies and the Mother Country, which ended in the Declaration of Independence and the birth of the United States of America.

In any case it must be borne in mind that when this country was producing agricultural and manufactured products on the same lines as other countries, that is to say before the great industrial movement, protection was rigidly enforced, and several industries, notably the woollen trade, were

founded on protection. Looked at on broad lines it is evident that the development of the natural resources and the increase of population both modify the logical fiscal policy of a nation, and a noticeable feature of the British Empire as it exists to-day is that it contains communities in every stage of development. In consequence, a uniform fiscal policy is not possible unless each part of the Empire is prepared to make some considerable sacrifice either of indirect taxation or of cost of necessities.

The United Kingdom is very definitely a country which cannot produce any great proportion of its requirements of food and other necessities of life. Her natural resources are limited and her National Income depends largely upon services rendered to other nations by manufacturing and transporting goods, and by employing her Capital in financing the production of goods in one foreign country and selling them at a profit to another. Her aggregate income must first of all meet her

expenses for defence and Government, and the balance must be utilized to purchase the necessities of life, such as food and raw materials for clothing, together with such additional commodities as she can afford in the way of luxuries to give her population a high standard of living. On these broad lines it is evident that the simplest and fairest way in which she can raise the necessary money for Government purposes is to demand payment in cash from each individual on an assessment which is fairly apportioned.

It must be borne in mind, however, that protection can serve a second purpose in fostering the production of protected goods by the imposition of a tax on similar imported goods. It must also be remembered that payment for goods imported must be made by equal payment in goods or services rendered, unless the imports are interest on Capital invested abroad.

Hence, the fiscal policy must take into

account not only the question of the ease or fairness with which taxation may be imposed, but also its effects on staple industries. This involves careful consideration of the policies of other countries with whom trade is conducted so as to ensure the possibility of selling them goods or rendering them services which will pay the bill for goods purchased from them.

The United States of America is a typical example of a totally different combination of circumstances. There, in a very brief period, comparatively speaking, an enormous area of highly productive land was put under cultivation, and by immigration and natural increase the population grew at a very high rate. In addition to agricultural produce, minerals, timber, fuel and most of the essential commodities were developed at an abnormal speed to an extent that sufficed to meet the demand of the home market with a substantial excess for export. At the same time, under pre-war conditions, the U.S.A. contained a population that was

very largely engaged on production of commodities, and by use of machinery the production per head of population was very high.

Initially what was required to produce this large quantity of goods was population, together with internal transport facilities, factories and public services, for which Capital was required. By this is meant that those who were employed in developing these essential adjuncts to modern life had to live while the work was in progress, which would result in a large proportion of those so engaged becoming producers.

For a period, therefore, the U.S.A. produced abundance of surplus agricultural products and exchanged these for railway plant and other manufactured goods. She thus developed minerals and presently could offer copper, zinc, lead and other valuable metals in exchange for further manufactured products. Little by little she acquired the means and skill to produce the various manufactured goods she had previously purchased,

but she still owed very large sums for Capital lent to her to develop her industries. While in course of development, her imports were very large and a small percentage on the value of these sufficed for her national expenditure. In course of time her manufacturers found themselves able to produce almost all required by the home market for consumption, but they were faced by the question of cost. They then began to argue that if sufficiently high taxation was imposed on imported manufactured products the U.S.A. could shut these out almost entirely and employ her own factories and labour to meet the demand. They recognized that the result would be that prices of these protected commodities would rise, but they saw that actual prices were not really a matter of moment if the country was self-supporting, since the buying value of their currency internally would regulate wages all round.

This is an important point to remember in respect of protection in self-supporting

communities. If a thousand persons collectively can produce and manufacture all the commodities needed for each to live at a satisfactory standard, it makes no difference whether the goods are valued for exchange purposes at a high or low standard. The only essential is that there should be a standard which will show the relative value of a pair of boots, a suit of clothes, a house or a doctor's visit, and that the amount so paid will suffice for the bootmaker, tailor, builder or doctor to purchase his requirements at the standard rate of values.

Any excess goods produced, of course, can only be sold at the price the world may pay, which may be, and broadly speaking always is, less than that ruling in a protected country. If, however, the natural resources of the protected country are such as to yield large outputs of certain commodities for little labour and expense these advantages will suffice to enable the community to exchange a surplus of those commodities at the world's market price,

and thus allow them to purchase the few things they cannot produce themselves.

These conditions show that high protection, broadly speaking, was logical in U.S.A. and will continue to be while production of natural resources and consumption remain relatively stable, but that increase of population without correspondingly increased production may gradually alter conditions and render the policy uneconomic.

In the older countries, such as Germany, France, Italy and Belgium, conditions differed widely from those ruling in U.S.A. when faced with the problem of fiscal policy. In all cases agriculture was a stable industry, and very close cultivation followed the natural increase of population. Even so, complete self-support was not obtainable, especially in view of the very large outlay on defensive and offensive armaments each maintained. They perceived, however, first of all that by buying manufactured goods they paid not only for materials but for

labour used in their production, and they set to work to save this outlay. Fuel was an important item, and although they developed home supplies assiduously they found an easy way to supplement their inadequate resources by purchasing British coal in exchange for food-stuffs and goods which Great Britain could not produce to advantage. Each, of course, had certain valuable natural resources to develop and sell, such as the potash deposits in Germany, the iron and coal of the Ruhr, the wines from the vineyards of all these countries and many manufactured products for which they possessed special advantages. In course of time, therefore, while maintaining intensive cultivation of the soil, favoured by a better climate than that of the United Kingdom, they went into the same line of business in many commodities, that is the production of manufactured goods for sale to foreign markets. Generally speaking, through national characteristics and probably to some extent through maintaining a large popula-

tion at work on agriculture, the average standard of living was lower than that of the United Kingdom, and on this account labour was cheaper and manufactured goods could be produced cheaply.

They quite naturally utilized protection, already well established for revenue purposes, to foster different industries by taxing competitive imports. Germany further made a big bid for the ocean transport business, which was a very large source of revenue for the United Kingdom.

British Capital was utilized freely to build up these competitive industries. Profits made by British sales of goods to the various countries were not spent entirely on purchase of goods, but part was left as capital in public services and other enterprises needed for industrial development. Credits on London were utilized to purchase raw materials for manufacture and sale to markets formerly supplied by British manufacturers. Japan, which only threw off the shackles of mediaeval feudalism during the

last generation, developed into an industrial nation, largely on the same lines.

Our great overseas dominions, Canada, Australia, South Africa and New Zealand, had problems analogous to those of the U.S.A., and developed on somewhat similar lines, on which it is unnecessary to enter in detail. It will suffice to say that each has utilized protection as a means of taxation, and even prior to the Great War was turning to the development of different industries by high import duties. In their cases, as in the U.S.A., the natural resources made a high standard of living possible, and only a comparatively small sacrifice of this enabled them to foster first one and then another industry.

India had special features. For generations her population had cultivated the soil as their principal and almost sole occupation. Hand workers in the early days provided the manufactured goods they needed. British dominion in India, developed from purely commercial intercourse, was founded on the

original colonial basis which was to maintain a colony as a close market for the United Kingdom.

Efforts to foster industries by protection in India were keenly opposed by the British and especially by the Manchester cotton industry, which found there its chief market. Hence, excise duties equivalent to the import duty required for taxation were imposed on Indian cotton producers who could not, therefore, foster home production at the expense of imports. The teeming population of India, with very difficult racial religions and educational factors, have made the fiscal problem there very complicated, but even prior to the war views were held by many that the Indian Empire could not remain a producer of raw materials only, and a buyer of all manufactured goods.

Summarizing these brief notes on the very large problem of fiscal policies, it may be said that these have developed in different countries entirely on logical grounds, but that changing conditions must tend to

modify local views. Almost every nation before the war was engaged in developing some industries by protective policies, except the United Kingdom, which still remained an open market largely because her industries were already established and her production of natural resources was only a proportion of her income from services rendered, from financing overseas trade and from interest on overseas investments.

CHAPTER VIII

SOME OF THE RESULTS OF THE GREAT WAR

THAT a war involving most of the industrial and commercial nations of the world would seriously dislocate the complicated machinery of international trade was only to be expected, but the extent and nature of the dislocation are very important factors in an analysis of the unemployment problem.

Initially, outstanding credits between the nations at war were the cause of great difficulty to this country. As has been explained, international trade is conducted mainly on credit terms, involving only a minimum transference of gold to balance accounts. At any given moment one nation trading with another may have a greater or

less sum due for goods purchased, and as such sums are the aggregate of a vast number of private transactions, it is impossible from day to day to estimate the position. The fact that the Germans at the beginning of August, 1914, owed this country an abnormally large amount in respect of bills of exchange for goods purchased and delivered is strong evidence that war was not unexpected by them. Once hostilities commenced, payment for the goods already delivered was obviously postponed for an indefinite period, and in balancing up the British account with Germany this sum had to be carried to suspense account.

The banks and finance houses which had discounted these bills were thus faced with a heavy loss, or at the best a lock up of money, and would have been seriously hampered in financing production of goods if the Government had not come to the rescue by assuming responsibility within certain limits.

The next effect of the war was entirely to

alter the class of goods for which there was an immediate market. Every product which had a direct use in warfare was in demand, while others, for which normally a large market existed, became unsaleable. At the same time labour was depleted by the call to the Colours of all able-bodied men, other than those essential for the production of munitions. The attack on shipping which ultimately developed into unrestricted submarine warfare made it essential for this country to produce necessities of life to the greatest possible extent, and labour and material normally employed on production of goods for export was diverted. This, in itself, does not adversely affect the National Income if the production of goods for consumption is as efficient as that for the manufacture of goods normally produced and exchanged, but this was not the case.

With the increased home production for consumption the nation made an approach towards conditions ruling in self-supporting countries, and brought into operation factors

which affected the value of currency. For instance, the cost of home-grown food was higher than for that previously imported, as was also the cost of imported necessities through damage to shipping and restriction of markets to non-enemy nations.

These factors reacted on one another. As the cost of necessities rose labour required a higher rate of wages to meet the cost of living, and the higher wages increased the cost of home-produced commodities. Further, labour in a broad sense is a commodity itself which is subject to the laws of supply and demand. There was more than enough work for every man and very many women, and this was utilized to enforce a constantly increasing rate of pay for every class of work.

In the meantime the National Income was seriously reduced. Munitions of war were not produce for exchange by international trade, and thus a great proportion of the national resources in material and labour was utilized on work which not only failed to

bring anything to the nation, but in addition consumed vast quantities of material, much of which had to be purchased from abroad. The National Income derived from merchanting, from carrying goods overseas and from rendering services to foreigners fell also to a low figure, and the nation was in reality compelled to live on its Capital. This was effected in a more or less roundabout way. The Capital readily available for the purpose was that invested in foreign countries. The Government either borrowed this direct or holders sold the securities abroad and reinvested the proceeds in British Government loans. In either case the effect was to diminish the National Income from abroad and to increase the national expenses by a charge for interest on loans.

This may be illustrated by considering the case of a man who owns a number of houses for which he receives rent, and a business which is losing money. If he sells a house and puts the money in the business he loses

his rent, and instead of obtaining an equivalent income from the investment he sees the capital value of the house absorbed gradually in the business losses. It is only by improving the business sufficiently for it to yield him a return on the loan that he can hope to restore his income or recover the capital value of the house he sold.

By the time the war was finished and the armistice declared the United Kingdom had pledged or sold a vast quantity of her foreign investments and had spent the money for non-productive purposes. A very substantial proportion was loaned to Allies, or these loans, made by U.S.A., were guaranteed by the British Government. The end of the war found the nation with the bulk of her able-bodied men under arms, a great number of factories equipped for producing munitions, enormous stocks of raw materials, semi-finished and finished goods for use in warfare and an internal debt which for interest alone involved twice the normal taxation. For a few months there was a

to the nation that these payments could only be made in goods, and that every such payment meant a lost market for the corresponding home industry. The slump that followed is too recent and has continued too long to necessitate any detailed reference. The inevitable conditions resulting from the war were gradually realized, but only gradually.

In the first place, the delicate machinery for balancing the world's production and the world's consumption of many types of commodity was found to be seriously out of gear. For instance, the capacity of the aggregate steel plants far exceeded the world's demand for steel, and many of the countries that previously had been buyers of this material could now produce all they wanted, and even could offer a margin for export. Falling prices put a stop to orders, since buyers are never willing to commit themselves to forward purchases if there is a chance of their being able to buy cheaper by waiting. Capital, too, became nervous and was not available for the production of goods.

was only evident when large purchases of foreign goods had to be financed. So long as sales and purchases were internal the value of currencies was immaterial. When, however, another nation would only give a half, a quarter, a hundredth or thousandth part of the par value for currencies conditions became serious. Then again, different nations, and especially this country, began to take stock of surplus war goods, and the British Government started an intensive campaign to find markets for these to the value of hundreds of millions sterling. Thus, makers of many commodities who had re-equipped their factories for the production of goods for consumption or export found their markets dominated by surplus war stocks at prices far below those possible for freshly manufactured goods.

Financial experts at last made themselves heard and pricked the bubble of the promises of prosperity for the victorious Allies through reparation payments by the defeated Central Empires. They slowly made it clear

the demand for goods resulted in rising prices and feverish activity.

The magnitude of the demand for both home-made and imported goods, and the temporary collapse of a great manufacturing nation like Germany, favoured increased production in England and other countries and culminated in a trade boom. Factories were hastily converted for the production of goods other than munitions. Labour demanded and received advanced rates of wages, and, universally, the relief from war conditions led to personal extravagances.

In the meantime Governments, while disputing over details in the settlement of terms of Peace, began to overhaul national finances. The conditions were such that no one could really master all the intricacies involved, and the policies of different nations were based undoubtedly upon misconception of the facts. In some directions inflated currencies, manufactured by the issue of notes without real capital to cover them, were adopted, and resulted in a confusion which

condition of stagnation while the habits of four years were meeting the inevitable change from War to Peace. Exuberant politicians told the nation that their war losses would soon be met by the defeated enemy. Disbanded forces returned to their homes and to a period of well-earned rest. The accumulation of war stores and the flood of imports let loose by the termination of the submarine campaign made the necessities of life more plentiful, and an inflated currency enabled the nation to pay high wages and even substantial sums to those whose work had ceased through the closing of munition factories. During this period nothing was done on constructive lines to readjust the broken machinery of commerce.

The United States, into whose pockets had flowed a gigantic amount of money while they were still onlookers of the war, celebrated the return to Peace by indulging in a very high standard of living. This involved a demand for luxuries which had not been produced under war conditions, and

parison with her territory and population, which, of course, indicated that her population was largely self-supporting on the standard of living they were satisfied to adopt. Her main exports were natural and agricultural products which were the surplus of what she produced for her own consumption. Under such conditions reduced production soon dissipated any surplus and left her with a deficiency of the bare necessities of life. As was inevitable, famine soon followed. A huge population, accustomed to feed itself and send some additional food-stuffs into the world's markets, had become herself a buyer of foods and necessities of which the world held no adequate stocks. In any case, as a buyer these goods had to be paid for by exports or credit based on the capital value of the assets.

It was here that Russia's financial policy in repudiating her debts bore fruit. No other country would give credit to a nation that was content to be governed by those who openly proclaimed their intention of

exchange went to 100,000. When currencies became valueless the debts automatically were *extinguished.*

Politics could not but play some part in the after-effects of the war. The Russian Revolution under Kerenski, followed by the Bolshevist regime, is important not from its direct effects on the trade of this country, but from its indirect bearing on all international trade.

A large population, occupying vast territory in Europe and Asia, repudiated its debts. Incidental to this was a period of chaos during which the commercial and industrial classes were wiped out of existence or fled the country without a shred of property.

Capital, as it existed in the form of railways, public services and organized industrial and commercial undertakings, disappeared as these were allowed to fall into ruinous disrepair or were altogether obliterated.

The actual annual value of the trade of Russia was very low in pre-war times in com-

ing fictitious assets naturally busy themselves in purchasing all the goods they can buy with currency that will, they know, become less and less valuable.

While the merry game goes on there is apparently prosperity. Raw materials are purchased and the finished goods are produced by labour paid in currency. The goods are exported and sold, but the purchase money is lodged abroad, and as the home currency falls in value these foreign holdings become relatively more valuable to the individual owners, but for the most part escape taxation.

The cost of manufacturing is low because labour is paid in inflated currency, but not at correspondingly increased rates. There was inevitably an end to such false trade, but those countries that shaped their policy to this end took advantage of the depreciated currencies to extinguish their internal indebtedness. A thousand million gold marks of a pre-war Government loan could be paid off by 10,000 marks when the

In this country it was decided that the quickest way to return to the normal, but by no means the easiest, was by reducing floating debt, curtailing credit and meeting all revenue expenditure by taxation. Such a policy all round might have quickly re-established international trade, but other countries were not prepared to adopt these drastic measures. On the contrary, Europe generally began to inflate currencies without adequate Capital behind them. The Central Empires were faced by huge bills for reparation. Whether they ever had any intention of meeting these in full is doubtful, but they certainly had not the ability to do so. For a while they indulged in gigantic inflation. Exactly what happens under such conditions must be realized. All goods produced and consumed at home can be exchanged on the local currency without disturbance. It is only when goods must be imported that a debased currency makes its evil effects apparent. Those behind a policy of printing notes represent-

not repaying their past debts, and further refused to recognize the existence of Capital held by individuals.

Of charity, contributions were made in food and clothing to support the starving population. In haste the Government took steps to alter property conditions sufficiently to induce the population to cultivate enough land for food production for the nation's necessities.

The disorganized transport system rendered even such production and distribution internally difficult and the pre-war export of surplus production impossible.

The settlement of some plan of action internationally in respect of payment of reparations by the defeated Central Empires involved endless conferences by the Allies without any definite settlement.

The U.S.A. decided to stand aloof from the League of Nations and any participation in attempts to find a solution. Her first ambition was to make use of her enormous productive capacity and accumu-

lated wealth to become a great, or in fact the greatest, exporting nation and centre of the world's commerce. In this attempt she failed signally, for reasons which were apparent to all students of economics. She was not content to confine her production to those commodities which she could manufacture at prices which were competitive in the world's markets. She decided rather to produce everything possible for her own consumption without regard to cost of production by imposing prohibitive import duties on foreign competitive goods. By making herself thus self-contained her currency was mainly for internal circulation, and as she had accumulated enormous stocks of gold by her wartime sales, gold had become cheap relatively to currency. In addition, she was owed large sums by the Allies, and in the case of Great Britain, at any rate, this was consolidated into a definite loan with interest and sinking fund payable in gold. These conditions combined to defeat her ambition of becoming a great

exporting nation. The world buys goods on the basis of gold values, the U.S.A. currency bears a high value relative to gold, heavy export duties and self-contained internal trade involve high wages, and consequently the cost of goods in dollars and relatively in gold is above that of the world's markets.

In more general terms, the position may be explained by remembering that exports must be paid for by imports or gold, and that as the gold supply is limited and already largely held in U.S.A. they cannot sell because they cannot take payment in goods owing to import duties.

France, in deciding the terms of settlement with the Central Empires, is influenced by more than one factor. In the first place she demands safety from future aggression. In the second place she requires definite payment for re-conditioning her devastated territories, and in the third place she desires to establish herself as a great industrial nation by commanding valuable fuel and iron deposits. As hitherto, her primary

industry is agriculture, and to this her population have returned, but with the demand for labour on the increased industrial ventures, she has found occupation for the whole of her population.

At the same time she has not faced her financial obligations on the plea that her debts are covered by moneys due to her as reparations. Hence, with her population busy, her output and exports increased over pre-war figures, her currency stands at less than a quarter of its gold face value.

These are some of the factors which have affected industries and commerce through the war.

The list is by no means comprehensive, but should suffice to indicate the bearing of the war on the unemployment problem in Great Britain.

CHAPTER IX

SUMMARY

In an attempt to deal with so many and such diverse conditions as have to be taken into account, it is impossible to avoid somewhat lengthy explanations. It may, therefore, be desirable to summarize the various preceding chapters before attempting a diagnosis of the causes of unemployment.

1. Commerce is based upon barter as practised in the earliest prehistoric times and among the primitive races still existing.
2. Capital comprises every form of property or goods which can be assessed in value relatively to a standard.
3. Money is a standard against which all property or work can be assessed.
4. Currencies are local forms of money

which may be assessed against one another relatively to gold, which is accepted as the international standard.

5. Standard of living is measured by the extent to which the luxuries and amenities of life can be enjoyed over and above the necessities.
6. Credit is acceptance by the seller in exchange for goods of a promise to pay by the buyer, and it is dependent upon the seller's estimate of the ability and willingness of the buyer to meet his liability.
7. Goods for sale or exchange must first be produced, and capital is essential to pay for raw materials and labour prior to or during the time required to produce the finished goods.
8. Capital is the medium of exchange of goods since both parties to the exchange have drawn on capital to produce the goods, and the extent of the interchange is limited by the quantity of goods Capital will finance over the period of production.

9. Nations collectively have National Incomes and National Expenditure, and the surplus of such income over such expenditure is the amount available for division among the population.
10. The greater the excess of National Income over expenditure the higher is the average standard of living of the nation.
11. Up to the middle of the nineteenth century industries and commerce were limited in quantity and range of interchangeability by primitive means of transport.
12. Early in the nineteenth century factory production of goods first introduced in the United Kingdom led to greatly increased output, lower costs of production and large sales in the unlimited markets of the world.
13. Improved transport and telegraphy extended the trading area until the whole world has been linked up.
14. The enormously increased production which brought wealth to the United

Kingdom logically resulted in free import of goods, since duties were not needed to protect manufacture, and payment for goods exported had to be taken in goods imported.

15. Other nations, having developed coal and natural resources, and being desirous of manufacturing for themselves, utilized tariffs against British manufactured goods to build up home industries.

16. Trade Unionism, initiated to secure improved wages and conditions for sections of the population engaged on similar work, has developed into a caste system under which labour is subdivided into very numerous water-tight compartments, each of which acts independently, although at times different Unions co-operate.

17. Prior to the war, the world's output of different commodities closely approximated the world's consumption.

18. The war completely upset this balance between output and demand, and has

left a very much larger capacity for production of many commodities than there is demand for their consumption.

19. The post-war boom in trade was short-lived, as was inevitable, and the various countries involved have taken different steps in respect of finance, due to war expenditure and demand for reparations.
20. The payment of reparations must be either in gold, of which there is not a sufficient supply, or in goods, which must inevitably compete with the products of those nations receiving payment of reparations.

These are among the factors which must be taken into consideration, and in addition there are personal factors which cannot be disregarded.

It is now ten years since the war broke out, and those who were then school children have now reached the age by which they should become active workers.

During the four years of the war a considerable number of young people were taken from their apprenticeship or first jobs to lead a life that was totally different from that they were entering upon.

Further, in the United Kingdom the normal reduction of the population by emigration, amounting to some 350,000 a year, was interrupted not only by the war but to a considerable extent after the war, as the countries which previously accepted British emigrants in unlimited numbers adopted policies of restricted immigration, through local unemployment or fear of it.

Again, the nation has accepted the principle that even if a man is out of work his home must be maintained, and he must receive enough to live upon. This was hastily met by the Unemployment Relief or Dole system, adopted as a temporary measure, but not replaceable up to the present by any acceptable alternative. The dole system in itself is merely a means of providing a portion of the population with

a share of the National Income, and adds the recipients to the number of the non-producing population, part of whom are employed certainly on essential duties, but others on work which adds only to the amenities of life of the population.

CHAPTER X

A DIAGNOSIS OF THE CAUSES OF UNEMPLOYMENT

It is now possible to draw some conclusions from the foregoing analysis of the conditions governing industries and commerce.

The first thing that is evident is that the demand for goods has diminished to an extent that has left producers short of work. Why should this be?

The population of the world, despite the ravages of war, is not materially reduced.

The soil, mines, fisheries and other sources of natural products are still as productive, or possibly more so, than before.

It would seem that if a sponge could be passed over the period of the war, the world could produce and exchange goods without material reduction. So far as concerns the

necessities of life it may be contended that this has taken place. There have been famines, notably in Russia, through political upheaval, but, generally speaking, in the post-war period the population of the world has been fed and clothed, although probably on a less generous scale than before.

The question may well be asked why the additional products needed for a higher standard of living could not have been produced and exchanged.

It is usual to reply to this question that the buying power of different nations has fallen so low that commerce is restricted. Closer examination makes it evident that the cause lies in the essential part played by Capital in industries and commerce. These goods cannot be produced and exchanged unless and until Capital is available to finance their production. That the Capital does not exist is not tenable. It is true that the world for four years produced but little surplus of revenue for accumulation as Capital, but the sum total of accumulated

Capital was gigantic, and the war outlay small in comparison. This is specially the case in regard to productive Capital, such as land in cultivation, mines and factories. Unfortunately, however, these cannot employ labour or produce revenue unless those in possession of liquid capital, that is money and negotiable securities, are prepared to finance the production of the goods. It is apparent that Capital for both buyer and seller is essential because both are really producers of goods for exchange and not manufacturers of gold or currency. This aspect of the problem makes it evident that if Capital will not risk the production of goods in certain countries, which before the war contributed their quota to the general exchange of commodities, the volume of trade must be reduced, unless other countries increase their production and exchange goods with one another to a greater extent than before.

Hence, the logical policy of loaning capital to those countries which are unable

to provide it themselves, but only on such conditions as will ensure the capital being utilized for the production of goods for consumption or interchange with other nations. In respect of this phase of the problem, therefore, it is essential that every country capable of producing useful commodities should be put in a position to do so, and the fact that this has not yet been done is one of the causes of Unemployment.

Assuming that the supply of Capital necessary for the production of goods is provided in every country, the interchange of goods, that is international trade, must take the line of least resistance which is between countries whose cost of production is lowest. Equally those countries will produce goods at the lowest cost which have a supply of labour that will work the longest hours for the least pay relative to the international gold standard. Assuming, however, that these conditions apply to a nation burdened with obligations to pay reparations, the cost of production cannot continue

to be unduly low if their currency is to be brought to and continue at an approximately fixed ratio to gold. The extra work done by labour is utilized to pay reparations, and the proportion of the products over and above those delivered for reparations and available for consumption or export is not represented by more than the output of those in other countries working shorter hours.

Illustrated simply, it is the case of a workman who has contracted a debt which he cannot pay in cash from his normal day's pay, as this only suffices to meet his living expenses. Even if he works overtime and utilizes his overtime pay to meet his debt he will not improve his own income or reduce the rate of pay for his employer.

The standard of living in such countries will depend mainly upon the extent to which they are self-supporting, since commodities produced and consumed internally will be exchanged on the basis of the internal currency, but any imports must be paid for

on a gold standard, and this means export of goods over and above those sent out as reparation payments.

So far as labour is concerned, reparation payments in natural products such as coal, timber or potash, reduce the necessity for increased work by labour. Regarding the problem, therefore, from the point of view of employment, it is obvious that those countries which have to pay and do pay reparations must maintain their populations in productive work at the highest possible rate of output, and that their surplus production sent out as reparations must be sold at any price obtainable, the payment being solely in reduction of their debt and not in exchange for other goods by negotiation.

From the point of view of countries receiving reparations, the conditions are altogether different. If the goods deliverable as reparations are such as are not produced internally and otherwise must be imported, the reparation payment is beneficial, since it will not displace labour that

otherwise would be engaged on producing such goods. Further, those goods which normally would be produced and exchanged for these reparation imports are available to buy luxuries which improve the standard of living. Therefore, such reparation payments as can be paid in suitable commodities need not affect employment in the countries which receive them.

Unfortunately, such conditions can only be fulfilled to a very limited extent. The chief payments of reparations are due from Germany to France, England, Belgium, Italy and the U.S.A., and in each case there are different factors involved.

France under the settlement has acquired territories which are productive of iron ores and contain large and efficient smelting works. In addition, she has secured a substantial proportion of the former German monopoly of potash deposits, of great value in agriculture, and numerous factories and textile mills. To carry out production in these and for her other industries she

requires coal, and under the Treaty she receives large quantities at the bare cost of production. France, therefore, can produce manufactured goods for her own consumption and an excess for export. She is able, therefore, to employ her labour in these industries, and in addition can purchase other goods for the benefit of her population with those exports formerly utilized to pay for the reparation goods.

Now a substantial proportion of her previous coal imports came from the United Kingdom, and the reparation coal has materially reduced this demand, causing unemployment in British collieries and a reduction in the trade between the two countries.

As regards reparation payments by Germany to the United Kingdom, close examination shows that manufactured products almost entirely must be supplied, as Germany does not produce raw materials required by us to any great extent. Her agriculture, although intensive and efficient,

does not produce quite enough food-stuffs for her own consumption, and she has no excess to send us against this, our most urgent necessity.

It is arguable, of course, that if Germany sent us a flood of manufactured products, these could be divided up in some way so that we might take a complete holiday and live to a considerable extent on free imports, at any rate for a time. Even if an arrangement of this kind could be made it would certainly prove ruinous to the United Kingdom, since it would involve idleness for a vast number of the population and distribution of the reparation payments in some form of dole, which would demoralize the whole of our industries.

In respect of other reparation payments, Austria has been cut up into a number of States, and herself is barely large enough to be self-supporting, and payment of reparations by Austria or the other countries is really a remote contingency.

The problem is further affected materially

by the financial position of the Allies *inter se.* There are large debts due by France, Russia, Italy and Belgium to this country which could only be liquidated by goods, and this would involve the cessation of many British industries. At the same time this country has agreed to pay interest and a sinking fund on money borrowed from U.S.A., a considerable proportion of which was lent to the Allies. Hence the United Kingdom must export goods or gold to meet her liability to U.S.A. This condition makes it obvious that if we could receive payment of reparations or repayment of moneys loaned to the Allies in such form as would be suitable for transmitting to U.S.A. in liquidation of our liabilities, we would benefit directly.

These considerations show that it is impossible to disentangle the reparation and inter-allied debt problems, the effects of which are factors which must be considered in relation to Unemployment. Broadly speaking, they are:

1. The United Kingdom by sale of foreign securities, mainly to U.S.A., has reduced her annual income from abroad, and the corresponding internal loans in the United Kingdom necessitate heavy taxation.
2. This taxation reduces the standard of living in the United Kingdom.
3. Payment of interest on the gold basis to U.S.A. for a long time affected the relative value of British currency in the world's markets.
4. The lower rate of exchange has thus increased the cost of imported goods and necessities measured in sterling and necessitated higher wages.
5. Higher wages increased cost of production in industries and reduced sales in foreign markets.

This vicious circle seemed to have no opening, but during the past few months the sentimental as apart from the material influences on national credit have come into operation. By funding her debt to U.S.A., and punctually meeting her liabilities for

interest and sinking fund, the United Kingdom has shown the willingness as well as the ability to pay, which are essential for credit. In consequence the exchange value of sterling relative to gold improved very rapidly. The financial world is satisfied that the British currency is sound relative to gold, and sold dollars to purchase sovereigns at a discount to such an extent that the discount almost vanished, and this movement has culminated in a return to the gold standard.

The effects of this on industries in the United Kingdom require careful consideration. At first sight it appears that the higher the gold value of the currency the greater will be the cost of production of goods unless wages are reduced to correspond with the increased value of the currency.

In British industries, however, several points must be remembered:

1. To a large extent we produce finished goods from imported raw materials,

and the higher the value of our currency, the less in currency do we pay for the raw materials.

2. A large proportion of our food and necessities is imported, and the higher our exchange relative to gold, the less will our imports cost us.
3. A very substantial proportion of our National Income is derived from mercantile and financial services rendered to foreigners, involving the utilization of our Capital. It has been shown that a nation's collective Capital is in various forms, such as factories, buildings and so forth, but that the national currency and credit, based on this Capital, is utilized as liquid Capital for such operations, and that this rises or falls in volume with the exchange value of the currency relative to gold. Hence a ten per cent. improvement in our exchange means a corresponding increase in our Capital, which can be utilized to earn interest and augment the National Income.

All these factors are involved in the conditions arising from reparations and inter-allied debts, and show that a settlement on an equitable basis is one of the great essentials for reducing unemployment.

The next point to consider is the way in which reduced net National Income directly causes unemployment.

For the service of war loans, for payment of interest on U.S.A. debt, and for war pensions the nation must set aside a far larger sum from the gross National Income than was needed before the war, and, as has been shown, there must remain less for division unless the gross National Income is increased. So far from this being the case, it is fairly evident that the gross income has decreased. Hence there is less left for division. This should entail a reduced standard of living all round, and it does do so on the average, but only on average because a proportion of the population

before the war, and thus there is less left for the other portion.

Taking things as they exist, and disregarding Utopian dreams of absolute equality throughout the population, it is easy to see that those who possess accumulated wealth and have to pay largely increased taxes cannot afford to employ as much labour for personal benefit as before. Every country mansion closed, every garden allowed to run wild and every reduced domestic staff involves the unemployment of a certain part of the population. In other words, a man with wealth receives a large share of the National Income, and in maintaining estates or large establishments he distributes the bulk of this income over a number of persons. The additional taxation he now pays includes a large proportion of the funds required to pay unemployment relief to those out of work.

From an economic point of view, therefore, this heavy taxation is unsound, since it means deducting the income as taxation

which previously was employed, at any rate partly, on productive work such as gardening. The service of the national debt, pensions and the like involve, unfortunately, a substantial part of this taxation and consequent unemployment. The standard of living of such people is, therefore, reduced, and in its reduction unemployment of some of those who previously shared in the larger incomes is unavoidable.

This is not confined to the very rich. It permeates throughout the upper and lower middle classes, and collectively causes unemployment, not only of those who were engaged on direct employment, but also of those who produce luxuries which can no longer be enjoyed.

The issues involved in this factor of the Unemployment problem are so important that a concise summary is essential to show their economic bearing:

1. The gross National Income must meet the nation's expenditure on payment

on interest to foreigners, on defence and on civil Government.

2. The net balance must purchase the requirements of the population and fix the average standard of living.
3. The means of livelihood of each individual is a link in the complex structure of society, but the greater the number of those employed upon production, the higher will be the gross National Income.
4. The subdivision of the National Income over the population is largely by wages, which, in effect, are the assessment of the value of each worker's services to the community.
5. The payment which can be made to producers is based upon the world's market value of the products of their labour, and at the same time must be sufficient to secure for them and their families an adequate standard of living relative to the rest of the population.
6. Unless the present net National Income suffices to provide the exist-

ing population with an adequate standard of living, either the National Income must be increased or the number of persons over whom it is divided must be reduced.

7. Assuming any figure, say 60s. a week, as the money value of a satisfactory minimum standard of living, it is obvious that the conversion of a non-producer into a producer, earning only a proportion of 60s. a week for the National Income, is a benefit to the nation.

It would seem, therefore, that one of the causes of unemployment of part of the population is due to the ratio between producers and non-producers among those who are employed, since a greater amount of production and consequent increased net National Income would provide the funds for further employment, even if the services of this additional labour are utilized for occupations to provide greater amenities of life for some portions of the community relative to others.

Conditions existing in this country in respect of the great industry of agriculture, are peculiar. The climate is uncertain, and in consequence the variation in crops from one season to another is very considerable. Thus expenditure for labour and fertilizers cannot be estimated to return a definite quantity of products, except by average over a number of years, and the value of the products is equally variable through fluctuation of the world's market price.

The problem we face is to find a means of producing the maximum output from our land with a constant employment of a definite proportion of the population, at a rate of pay which compares, *pari passu*, with that earned by workers in other occupations. At the same time the cost of food must not be raised.

Whether this problem can be solved economically is a burning question, but unquestionably one of the causes of unemployment is the fact that under existing conditions agriculture cannot find employ-

ment for an adequate proportion of the population at suitable rates of pay, in competition with imported agricultural products.

The attitude of labour under Trade Union regulations must be considered in respect of unemployment. This again is closely interwoven with the question of producers and non-producers.

In order to manufacture goods for consumption and export, certain essential public services must be provided. These include the production of fuel, transport of goods and persons, housing, lighting, water supply, sanitation, police, administration of the law, education, medical attendance and the like. These afford occupation to very many people, and it is obvious that the higher the rate of pay they receive, the greater must be the proportion they draw of the National Income. If, therefore, those employed in these occupations collectively or in sections demand a rate of pay that is above the average, this automatically

must reduce the amount divisible between the productive workers.

Now the rate of pay of productive workers is fixed definitely by the value of what they produce, less the overhead charges for essential, but non-productive, services. Hence, every increase in payment to non-producers must either come out of the pockets of the producers or must come out of the nation's Capital if the production of goods ceases, because the costs exceed the price for sale in the world's market. This is easily understandable by an illustration. If a factory in the Midlands can produce goods for export, delivered by rail to a British port, at a certain rate of wages, the cost including 20s. per ton for railway freight, and if the railway workers demand higher wages that raise the cost of transport to 40s., how can this extra cost be met? The market price is unaffected, so the saving can only be made by reduced cost of production, or, in other words, lower rate of pay for productive labour.

Exactly the same argument applies to excessive cost of labour for building houses. This can only be met by increased rent, payable by productive labour, necessitating higher wages which would make cost of production too high for sales, or by contributions from the rates or taxes which, spread over producing industries, adds to their overhead charges, and again raises cost of production.

In respect of labour employed on productive industries, the subdivision of the population into various Trade Unions has a material effect. Before the war, production and demand for any special class of goods were balanced within reasonable limits. Hence, the numbers of those employed in each industry varied very gradually. Further, there was a large body of unskilled or semi-skilled labour which was transferable from one industry to another, as demand might dictate.

The war not only affected the capacity for production of different classes of goods

internationally, but it further drew large numbers into certain industries connected with munition production, and brought about an increase of Trade Unionism in unskilled and semi-skilled labour.

Hence, many workers became identified with certain industries, and under Trade Union regulations were precluded from working in any other, even if their own industry was slack and additional labour was needed for other work which the surplus unemployed could easily perform.

The complete stoppage of emigration during the war, and the restriction now imposed on immigrants by U.S.A. and our overseas dominions, is obviously a direct cause of unemployment. Each year an increased number of those of an age to start work are thrown on the labour market, and without expansion of productive industries there are no occupations open.

Summarized briefly, therefore, the diagnosis of the causes of unemployment demonstrates the following factors

to be the most prominent causes of the disease :

1. The inability of certain nations to produce goods for exchange for want of Capital or credit to finance goods in course of production.
2. The dislocation of normal international trade and commerce by reparation payments and war debts involving export of goods from certain countries, without corresponding imports, and the loss of markets for certain products of the United Kingdom through purchasers obtaining supplies as reparation payments.
3. The displacement of the delicately adjusted relations between the world's capacity to produce and consume certain commodities through development of industries under war conditions in countries formerly importing such goods, and the low costs of production in countries with depreciated currencies and high tariffs against imports.

4. The heavy taxation needed to meet war pensions and external loan interest and sinking fund.
5. The high relative percentage of non-producers to those who produce goods and contribute their quota to the National Income, and the high wages demanded by the non-producers relative to those which can be paid for making goods to compete in the markets of the world.
6. The subdivision of labour into water-tight sections which prevents the unemployed in one occupation from finding work in other occupations which need more labour.
7. The increased working population in the United Kingdom due to decreased emigration.
8. The unsatisfactory condition of agriculture, due to the difficulty of paying adequate wages to labour and meeting competitive prices for imported products under the conditions that prevail.

CHAPTER XI

THE CURE OF UNEMPLOYMENT

In attempting the foregoing diagnosis of unemployment, the arguments used have been based mainly upon historical data, and personal views have been carefully avoided. Suggestions of policy to cure the evil must, of course, involve opinions supported by arguments, but subject to proof only by trial.

On the basis of the conclusions arrived at in the analysis of unemployment, the following views are submitted as logical deductions on which a constructive policy may be based :

1. Capital to finance production of exchangeable goods must be provided in every country willing and able to enter into the chain of commerce.

This must involve not only liquid Capital, but the far greater essential, national credit, whereby each nation's currency shall have a reasonably stable value relative to gold, and thus allow goods to be produced and exchanged without violent fluctuation of exchange. To this end the ability and willingness of nations to meet their liabilities must be made evident, and this can only be effected by national expenditures being met by taxation each year. This process of balancing the budget is a first essential, since otherwise those nations whose expenditures exceed their incomes are really spending Capital, destroying their credit and debasing their currencies relatively to gold and other currencies.

These conditions cannot be enforced by one or more nations on others. Each must put its own financial house in order or participate to a very limited extent in international trade.

The world cannot wait for those who are unwilling to re-establish their credit and enter into commercial relations on a sound financial basis. The vast internal production and interchange of goods within the U.S.A. is an indication of the possibility of a portion of the world acting independently, and high outputs, extensive commerce and improved standards of living are possible between the bulk of other nations, even if some stand aloof for political reasons. For instance, Russia is not essential for international commerce on an adequate scale, but without trade on acceptable terms the mass of the Russian people cannot enjoy a high standard of living.

2. The problems of payment of reparations and inter-allied debts are very closely associated. Already this has been discussed at length, and it has been deduced that payment of reparations and war debts is beneficial to the recipients only under

certain conditions. To establish these conditions necessitates mutual forbearance. Any steps which can be taken to substitute purely commercial for political considerations will be an advance. At the same time settlements can only be effected politically, and those interested in industries and commerce can only lend assistance by studying the problems from the commercial points of view, so as to submit to their own executive Governments helpful information on the subject.

3. The excessive productive capacity of the world of various commodities and low costs of production in certain countries are factors which involve very complicated issues.

Under the system of free import of goods, which, as has been shown, was a natural outcome of the industrial movement of the nineteenth century, prices in this country are regulated by costs of production in other countries. Where these are

below those possible here, imports displace home production, and the increased capacity and lower standard of living in some countries has brought this about in certain basic industries.

The unemployment in these can only be met, therefore, by some method of artificially counteracting the low price of imports.

The two alternative methods of affording financial support to industries are by protective tariffs or subsidies. To both there are grave objections, but nevertheless as temporary measures to combat the continued unemployment they may be of great value, if not absolutely essential.

In both cases the ultimate result is that the industries so protected are assisted out of the general taxation to produce at prices which are competitive with those of foreign manufacturers.

The object of protection by tariffs is to secure for home industries the home market, and in so doing to raise the output of

factories to an extent that will reduce overhead charges per unit manufactured. This reduction of overhead charges may in some cases reduce costs sufficiently to allow competition in the open markets.

The difficulty of import duties lies in the protection of intermediate products utilized for manufacturing finished goods which are in demand in the overseas markets. For instance, galvanized sheets are largely produced and sold in this country. The raw material is in the form of steel bars which can be imported at prices below the cost of manufacture at home. By raising the price of foreign bars to that of the home product, the export of galvanized sheets may be endangered, and unemployment in this industry may equal or even exceed that in the steel bar industry. The safeguarding of Industries policy of the Government is designed to take these factors into account, with results that are still to be ascertained. There are possibilities of repayment of import duties on imported raw materials

being allowed on re-export in the form of manufactured goods, but this system of manufacture "in bond" involves very considerable complication.

Subsidies work in the opposite direction and are designed to reduce the unduly high cost of production of home manufactured goods to that of competitive products from abroad. The outstanding danger of this form of protection lies in the difficulty of preventing the subsidies being utilized to maintain excessive production costs whether due to inefficient factories, wages on too high a scale or undue profits.

Steps to obviate these dangers might be taken by limiting subsidies to an amount that would only cover losses which would have to be proved before a claim could be established. For instance, if a manufacturer could show that over a certain period he had produced efficiently and sold at market prices a certain quantity of goods at an ascertained loss, he might be entitled to claim repayment of all or part of this loss.

The governing factors in considering the desirability or otherwise of safeguarding industries by import duties or subsidies should be clearly understood. They are:

(*a*) Industries which are stopped or working at low outputs cause unemployment directly.

(*b*) Unemployment in one industry involves similar trouble in others as industries are interdependent and buy and sell *inter se*.

(*c*) The unemployed are supported by taxation of the whole community.

(*d*) Of the forty million inhabitants of the United Kingdom less than two and a half millions contribute to the sum raised annually by direct taxation, and it is from this that Unemployment Relief is met.

(*e*) Artificial protection of certain industries may adversely affect the incomes of merchants, shipowners and financiers who contribute to direct taxation and thereby reduce the sum raised by taxation at existing rates.

(*f*) The measure of the expediency of safeguarding certain industries from the purely financial point of view is, therefore, based upon the relative cost to the taxpayers of unemployment relief as compared with the additional cost of taxed commodities or the subsidies paid, together with any loss of National Income through the altered conditions affecting merchants and traders.

(*g*) The demoralizing effects of continued unemployment must be considered even if the direct financial results of artificially stimulating industries are dubious.

4. To remedy the drain on the National Income due to war loan interest and pensions is not possible directly. The only logical way of counteracting this national obligation is to increase the National Income by greater production, since it is on this and on this only that the income depends.

5. The relative remuneration for pro-

ductive and non-productive labour involves factors which are unfortunately political and highly controversial. A settlement of the problem on permanent lines would seem to depend upon the desire or otherwise of wage earners to continue this form of remuneration, or to seek some alternative method of payment for their labour. It is probable that by far the greatest majority of wage earners would prefer a definite minimum wage, security against disaster in case of unemployment or sickness, provision for old age and some participation in abnormal profits, to any form of national ownership of all Capital and Industries.

History has shown the characteristic of British working men and women to be essentially a desire for freedom and independence of Government or bureaucratic interference. That everyone should mind his own business is what most desire, but nevertheless the results of co-

operative action by Trade Unionism towards improved wages and conditions are fully appreciated. Under these circumstances it would seem that what is required to study and settle the vexed question is an adequate representation in the leadership of labour of those who desire to evolve a fair system of payment by wages rather than a revolutionary system of payment in other ways.

To this end a knowledge of the simple economics of industry is necessary, and especially a clear understanding that the standard of living of the whole population must depend upon the extent of the national prosperity for which co-operation between all classes is absolutely essential. Mutual agreement on two points must be the first step. Capital must agree that after the proceeds of industries and other means of livelihood for employers and employed have provided reasonable wages, provision for unemployment

and sickness and interest on Capital employed according to the risk involved, any balance should be divisible in such a way as to benefit labour as well as Capital.

This is an ideal which certainly is not unattainable, and has already been introduced in certain industries.

The other essential is for labour collectively to assess the relative wage value of different occupations and to insist on the rise or fall of wages relatively, according to the prosperity of the nation. To carry this into effect it would be necessary for the leaders of labour to agree that they would not tolerate sectional strikes, and that they would actively assist in replacing any group or section of the working population by others if a demand is made for altered wages or conditions which are not fair, relatively to the wages in other occupations. It is impossible to over-emphasize the necessity for co-operation between Capital, employers

and employed if national prosperity is to be increased. It is contended that Capital in the past has reaped an undue proportion of profits in industries, which may or may not be the case. Conditions, however, have changed, and undoubtedly to-day public opinion would support any method of ensuring participation of labour in profits which are in excess of what Capital should fairly earn, relatively to the risks involved, and the removal of one of the greatest risks, strikes and lock-outs, would leave more profit available for division after the necessary provisions for carrying on have been made.

6. The danger of subdivision of labour into sections is apparent when certain trades are busy and short of labour, while others have many unemployed on their books. The movement which has resulted in the present position is not unnatural, but it needs the careful investigation of labour executives to re-introduce the

elasticity essential for national production. This again is a subject for a constructive policy by labour which aims at evolving improved industrial conditions without discarding payment by wages. Employers can only make their requirements known, and it is for labour to provide the means of fulfilling these, provided they are reasonable.

The most difficult and illogical feature of the existing system is in the overlapping of different Trade Unions whose members are restricted to performing classes of work which do not differ to any appreciable extent. If the principle is accepted that occupations involving greater skill or exertion than others should receive better pay, it is quite illogical for any section which does almost exactly the same work as another to receive better pay.

7. The increased population naturally involves decreased average income for everyone unless the National Income

is increased. The same argument is applied by other countries to whom our surplus population has emigrated in the past. They say, not unnaturally, that they cannot accept immigrants unless they can put them into a position to produce. In the case of our Overseas Dominions this attitude is strengthened by the necessity for Capital to develop productive territory by irrigation, railways, roads and other public works, before immigrants can become producers. The problem of migration within the Empire has become substantially modified under conditions now ruling, as compared with those in force half a century ago.

In all newly developed countries the wealth first results from the production of natural resources, such as agricultural produce and minerals. In course of time those employed on these arduous pursuits are followed by their children and grandchildren, who, on the average, have enjoyed

more liberal education and inherit wealth accumulated by their forefathers. To a large number of these the less strenuous life in towns appeals, and industries are developed to convert some of the raw materials into finished products. The developed and still undeveloped land calls for workers, who in their turn can produce wealth from the soil by the sweat of the brow. There has thus arisen a sort of governing principle which calls for fresh immigrants serving their apprenticeship, so to speak, in their new surroundings by work on the production of natural resources, while those who themselves or whose fathers have worked in these occupations and have made good, turn their attention to less arduous tasks. Our Overseas Dominions, therefore, ask for able-bodied manual labour capable of tilling the soil, and also they ask for loans or financial assistance in settling these immigrants on the land.

They point out that as each makes good he becomes a buyer of manufactured goods, and that the local output cannot keep pace with the demand, so that prosperous settlers mean increased imports of goods from industrial nations.

If the British Empire means anything, it is that mutual advantages should exist between its constituent States. The Mother Country, despite her burden of war debts and through her drastic handling of her international indebtedness, has almost unlimited credit and can finance the development of new territory on any scale. The Overseas Dominions have undeveloped territory, unpeopled lands and security to cover loans for development. All the essentials for a mutually advantageous bargain exist, if the rules are observed on both sides. The United Kingdom wants homes for surplus population and markets for manufactured goods. The Dominions want immigrants

willing to work on the production of natural resources, and capital or credit for public services.

On broad lines the requirements of each party are complementary, and it needs but common-sense and goodwill to find a path to mutual benefits. The principles of preferential trading under tariffs are agreed and in operation. The expansion of the markets needs mainly increased population. It is not a political question—it is essentially economic. This needs no proof if it is remembered that the wealth and prosperity of every community depends on production, and the subdivision of the products or their exchange value in other goods over the minimum number.

The conversion of a non-producer in the United Kingdom into a producer in the Dominions means the creation of so much more wealth and consequent expansion of markets for all the goods needed for a high standard of living.

These considerations do not take into account the present urgent necessity for finding employment for those out of work in the United Kingdom. The development of a constructive policy on the lines indicated should, and in fact must, eliminate this evil, but it cannot re-act immediately. For the time being the situation calls for palliatives, and especially some method of converting the daily expenditure on non-productive unemployment relief into something useful. This is realized and in operation under the policies both of the existing and late Governments, but probably the economic aspect of the problem is not clearly understood by everyone. Employment on road making, house building, harbour improvements, and other permanent works is not a direct contribution to the National Income, but it is the utilization of labour to create Capital wealth, which, if judiciously administered, will yield a return in the future. Transport by roads is now so great that the provision of good trunk roads can

materially reduce transport costs. Houses in excess of the actual requirements of the population are needed so as to enable labour to move within reasonable limits from places where there is temporary slackness to others where labour is in demand.

Economically, even, it is sound to pay a bonus on the production of consumable goods if the value of the goods together with the bonus exceeds the cost of goods which would otherwise have to be bought abroad.

The revival of agriculture may be found to depend upon this principle if suitable safeguards are possible. Direct taxation in the United Kingdom is raised from under two and a half million of the forty million population. Of the money thus raised one hundred million pounds or more is utilized for unemployment relief, or in other words this amount of the National Income is distributed without any return by way of production or Capital asset.

The utilization of a proportion of the amount to subsidize agriculture would find

employment for a large number of the unemployed, and the products thus grown for home consumption would reduce the amount of expenditure for imports. In this way those who already find the money would continue to do so, but to a less extent, while the mass of the population who require the necessities of life at the lowest world's prices would still have these available, although home-grown instead of imported.

CHAPTER XII

CONCLUSION

THROUGHOUT this analysis of the economics of unemployment emphasis has been laid on the necessity for a clear understanding of the problem from the national point of view.

Society as at present existing is divided into many strata, and a greater share of the luxuries and amenities of life falls to the lot of those who own wealth or earn large incomes than to others. Whether this should or should not be are questions which are not discussed. They are outside the scope of the investigation, which is to study the evolution of better conditions, and not the revolutionary alteration of society. In this respect, however, it is well to bear in mind how complex the existing conditions are, and the danger of disaster following an

attempt to introduce a different form of society suddenly.

Many of the industries which afford occupation and livelihood for large numbers of the population are concerned with the production of luxuries which are purchased only by the wealthier classes. The abolition of the relatively small number of buyers in these classes would automatically close this market and throw many out of employment. Even under existing conditions the weight of taxation on large incomes has had this effect, and unemployment can be traced directly to this cause, but the process has been gradual and opportunities to find other work have existed. Precipitating a crisis and closing altogether the market for expensive motor-cars, yachts, costly clothing, luxurious furniture and other goods of similar classes would immediately and chiefly affect the working classes. Equally there is no assurance that conditions if completely altered would result in an all-round improved standard of living. The countries in which

the average standard is highest include in their populations the greatest number of abnormally rich men. This is not unnatural. The great fortunes of the individuals are the result of profitable business with other nations, and consequently increase the incomes of their own nations. From this revenue they distribute this wealth in finding occupation for their own countrymen.

The distribution of the nation's income to individuals is for the most part by wages which are paid in course of the production of goods and prior to their sale or simultaneously with services rendered. Unfortunately there exists no machinery for the adjustment of wages on a fair scale relatively between one form of occupation and another. For the wage system to adjust individual incomes fairly, and there is every reason to believe that this is the desire of the bulk of the population, an assessment of the value of each occupation relatively to others is highly desirable.

So long as sections of the population can enforce demands for improved wages which are higher than those of others engaged on more skilled or more arduous work, there cannot exist that co-operation which is essential for success in industries. To effect such a far-reaching modification of the existing wage system would necessitate the active assistance of that section of labour which is willing and anxious to improve and not overthrow the present basis of remuneration for work.

To this end those who believe in these ideals must throw off their apathy and not allow themselves to be represented by those whose views and teaching favour complete revolution of the social system and some visionary form of Communism, based essentially on class warfare.

Public opinion is emphatic in its demand for a living wage for the least skilled occupations, and progressive benefits for those who can and do render greater services to the community. On the basis of the living

wage it would be possible to determine a fair scale for each task by representatives of the various Trade Unions or Societies, provided those entrusted with the task had the confidence of the bulk of their followers, and were themselves convinced supporters of evolution of the wage system towards an ideal.

To attain an ideal is probably beyond the powers of mankind, but to work towards it is the strongest incentive to human effort. An industry working on ideal conditions based upon those at present existing can be visualized, and in a genuine attempt to attain this ideal most of the abuses and difficulties of industries would be removed.

What, then, are the ideal conditions?

An industry needs Capital to furnish its factories, plant, tools and working capital. It needs brain workers who are expert to design, erect and manage its factories, and it needs manual workers to carry on its operations. Before a stone can be laid the experts must satisfy Capital that the industry

has a reasonable chance of producing its goods at a price which can compete in the world's markets. The reward of Capital should be assessed in relation to the risk of success or failure. Assuming Capital to be satisfied on this point and the money for starting the enterprise being found, the experts must organize the business and prepare the tools for the manual workers. The basis of all calculations must be a living wage for workers, including the expert management, and a fair rate of interest to the Capitalist, after provision has been made for upkeep and maintenance of the factory. If the industry is efficient and successful, profits over and above those necessary to meet these payments would be made. Under existing conditions the bulk of such additional profit would accrue to Capital, and it is here that the ideal industry would diverge. In this all those who contribute to success—Capital, Management and Labour, would participate in all profits over and above those needed to pay a reasonable rate of

interest on Capital. The method of participation could be adjusted to meet the needs of each case, but in essence such an industry would benefit all those who are engaged in it side by side, and thus provide the essential incentive to co-operation.

In seeking to attain the ideal, it must be borne in mind that conditions in industries and other occupations have become enormously modified within the last few years. Markets have been closed by tariffs, rapid transport has brought even perishable goods within range of distant markets, and war conditions have affected the standard of living and cost of production of goods in certain countries.

For this country to maintain a high standard it is necessary that trade should be conducted so far as possible with other countries with like ideals. The products of those working eight hours a day cannot be exchanged on an equal basis with those who work for ten hours.

The United Kingdom has no great wealth

from natural produce. She must depend upon rendering services to the rest of the world by skilful manufacturing in her established factories, by cheap and efficient ocean transport, and by utilizing her Capital and credit to effect exchange of goods between nations. She is not, however, or need not be isolated in the position she occupies. She is the centre of that commonwealth of nations which together form the British Empire, and within the bounds of this Empire can be produced every form of commodity needed for the highest standard of life. Viewed imperially, her people have wide spaces of fertile land to fill and a vast market for manufactured goods. Common ideals of liberty and justice, joint interests in defence, a common language and the ties of blood should all combine to smooth the paths of trade within the Empire.

These considerations emphasize the desirability of even very substantial concessions to meet conditions in different

parts of the Empire which are established and logical from the point of view of our overseas dominions, although at first sight directly opposed to our interests.

Problems of economics deal with conditions that are not fixed and permanent. They concern relations in industries, trade and commerce which are human institutions and, therefore, in a constant state of modification. There are probably but a very few factors which are permanent, and it is perhaps well to conclude this analysis by summarizing some of these, so that they may be borne in mind in studying schemes designed to effect improvement in our conditions, and reduce unemployment.

1. National prosperity is essential for a high standard of living.
2. The subdivision of the National Income over the population is an entirely different problem from its production.

3. The average income and standard of living of each individual depends upon the amount of the National Income and the number of those among whom it is divided.
4. National prosperity depends upon production, whether for consumption or export, and on services rendered to foreigners.
5. Capital is the accumulated savings of past revenue, and while not of necessity liquid or realizable, it can be assessed in terms of a money standard.
6. Credit involves the seller being satisfied that the buyer is able and willing to meet his liabilities. It is not dependent solely on an estimate of the buyer's assets, and may be affected by extraneous factors and even by sentiment.
7. Capital is essential to meet costs of production in industries prior to the completion of manufacture and sale of the products.

Attempts to found a system of industry,

trade and commerce which runs counter to all or any of these economic truths are foredoomed to failure. They may, therefore, be useful in dissecting schemes or policies for improving industrial conditions, and help to distinguish between real cures for some of the evils of unemployment and the most attractive but unsound palliatives.